

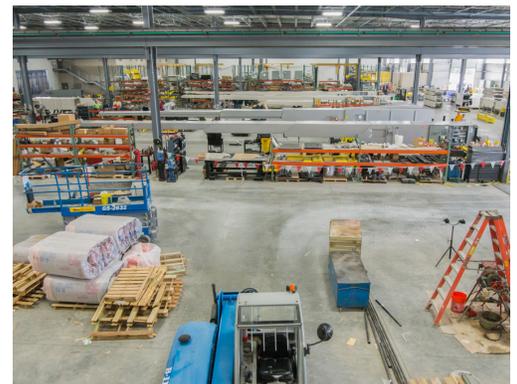


# CHAPTER 3

## MARKET DEMAND AND ECONOMIC OPPORTUNITIES

### IN THIS CHAPTER

Demographic Analysis | Employment Trends | Housing Market | Retail Market  
Office and R&D Market | Industrial Market | Hotel Market



## 3.1 MARKET DEMAND AND ECONOMIC OPPORTUNITIES ANALYSIS FINDINGS

### *Demographic Analysis*

1. Santa Rosa is the largest city in Sonoma County, and grew at a significantly higher rate than Sonoma County since 2010. The city's population continues to become more racially diverse, driven primarily by growth in Latinx residents, along with increases in Asian and Black residents.
2. Santa Rosa's household growth has been composed mostly of senior households (consisting of residents at or above 65 years old) and families without children. Since 2010, growth occurred in median household income levels and in the number of residents with higher educational attainment levels, although incomes and educational attainment remain lower than in Sonoma County overall.

### *Employment Trends*

3. Sonoma County's economy (by number of jobs) includes a mix of health care, retail, food services, agricultural and related food manufacturing, tourism, and medical technology. In Sonoma County, jobs grew by 19 percent between 2009 and 2018. Note that the employment data analyses do not reflect the current economic impacts of the COVID-19 pandemic, but instead illustrate longer-term trends and conditions that will be more relevant for the multi-decade period to be covered by the General Plan.
4. Santa Rosa constituted 37 percent of countywide jobs as of 2017. As the county seat and largest urban area in Sonoma County, Santa Rosa includes a concentration of jobs in many office-based industry sectors – such as professional services, public administration, and finance. Health care and retail trade jobs are also concentrated in the city, which contains two regional malls and several major hospitals.
5. In the long term, potential opportunities for job growth in Santa Rosa are in the dining and food/beverage-related businesses, and advanced research and development related to agriculture industries. Health care is also likely to continue driving substantial job growth. Government and other office-based industry sectors are likely to grow at a moderate pace. The city's large concentration of retail jobs may grow slowly or even decline over time as part of an ongoing contraction nationwide in "brick-and-mortar" retail sales, as online shopping captures an increasing share of consumer spending.

### *Housing Market*

6. Demand for housing is strong in Santa Rosa, as the city and region continue to experience a supply shortage. Demand is strongest for ownership housing products, with average sales prices for single-family homes and condominiums increasing dramatically and at a much higher rate than apartment rents in the last several years.
7. Financial feasibility challenges have constrained the development of higher density housing in Santa Rosa, as rents and sales prices are not yet sufficient to overcome the high cost of construction. Although developers are pursuing both single family homes and lower-density multifamily projects in Santa Rosa, the city has not been as successful in attracting higher-density multifamily infill projects, especially in Downtown Santa Rosa.
8. Santa Rosa is well-positioned to capture housing demand in the future, as the city is the largest job center in Sonoma County and has excellent accessibility to transit and Highway 101. Santa Rosa could potentially capture demand for between approximately 35,600 and 41,650 additional housing units between 2020 and 2050. However, the amount of housing that is actually built will depend on factors such as achievable rents/sales prices, the cost of construction, water and sewer infrastructure capacity, and the availability of suitable sites.

### *Retail Market*

9. Santa Rosa offers a diversity of shopping options, including both of Sonoma County's regional malls, a lifestyle center, "big box" retail stores, car dealerships, and the Downtown Santa Rosa shopping district. The city is the region's primary retail destination, serving both local residents and visitors. As a result, total taxable sales per household in Santa Rosa were 17 percent higher than in Sonoma County overall as of 2018. Santa Rosa also includes grocery-anchored shopping centers that serve local neighborhoods throughout the city. Retail sales performance was strong prior to the COVID-19 pandemic, with the city attracting especially high sales per household in the categories of motor vehicle and parts dealers, home furnishings, clothing, and general merchandise stores such as Target.
10. National trends indicate that "brick-and-mortar" retail sales will continue to decline over time, as a higher share of retail sales will be captured online. Therefore, future demand for new retail space in Santa Rosa will be driven by convenience retail to serve new households in the city. According to the demand estimates, Santa Rosa can anticipate capturing approximately 27 square feet of additional retail space per new household. If Santa Rosa were to capture all estimated growth in housing demand, the city could add between 946,000 and 1.1 million square feet of retail space between 2020 and 2050. Growth will primarily occur in the dining, entertainment, and food sectors, which are less likely to compete with online shopping. As older "big box" stores and regional malls become less viable, many of these spaces will also transition to other uses, or be re-tenanted by other types of retail and restaurants.

### *Office/R&D Market*

11. Santa Rosa constitutes Sonoma County's largest concentration of office space. Tenants in Santa Rosa primarily consist of small professional services, finance, insurance and real estate businesses, and some R&D related to advanced technologies. In the last decade, some of these sectors have experienced slight declines, while others have grown at a slow pace.
12. Recent office development activity in Sonoma County has been driven mostly by medical and government uses. There has been very limited development activity in Santa Rosa, with the city accounting for less than one percent of the 410,000 square feet of office/R&D space added in Sonoma County since 2010. This slow growth is attributable to limited employment growth in office-based industry sectors in Santa Rosa, competition for development with the Airport Industrial Area to the north, traffic congestion challenges along Highway 101, and limited housing growth within Santa Rosa itself. New SMART light rail service began recently, but it has not yet attracted new office development in the station areas.
13. Moving forward, the Marin-Sonoma Narrows project, which will widen Highway 101 to alleviate congestion and improve travel time to Santa Rosa from the core Bay Area, is likely to improve Santa Rosa's competitiveness for future office development. Furthermore, the addition of more housing options in the city will also enhance its ability to attract office workers and companies.
14. Office demand in Santa Rosa is estimated to grow at a moderate rate over the next 30 years, with potential for the city to capture demand for between 1.1 million and 2.1 million square feet of additional space. Demand will likely be driven by office tenants in health care, government, finance/insurance/real estate, and other small professional service companies. Santa Rosa would need to compete with the Airport Industrial Area in unincorporated Sonoma County for new office development. This area has seen a large amount of the region's office and industrial development activity in the last decade, and still has various projects in the pipeline.

### *Industrial Market*

15. The industrial market is stronger than the office market in Sonoma County. The industrial market serves the food and wine industry, which requires production, storage, and distribution space. The cannabis industry has also created demand for new space. Distribution centers have not grown significantly in Sonoma County, despite the growth in e-commerce throughout the Bay Area. This can be attributed to the county's distance from the core of the Bay Area, and capacity constraints on Highway 101.

16. From 2020 to 2050, demand for industrial space will continue to modestly grow in Sonoma County. Santa Rosa is positioned to capture 570,000 square feet or potentially up to 1.5 million square feet of growth in demand for industrial space. As with office space, it is possible that some of the estimated demand for Santa Rosa would be captured by the Airport Industrial Area in unincorporated Sonoma County. The city's ability to capture growth in demand may also be constrained by the limited availability of large greenfield properties located near major highways and arterial streets.

### *Hotel Market*

17. Santa Rosa's hotels serve a unique mix of visitors within Sonoma County, including both tourists visiting wine country and business travelers associated with companies located in Santa Rosa. Santa Rosa lost two of its hotels that offered larger meeting facilities in the Tubbs Fire, which has affected the visitor market locally. Prior to the pandemic, demand for hotel stays was strong in Sonoma County and Santa Rosa; an additional two hotels were under construction in Santa Rosa, with three others planned for development. It is likely that the COVID-19 pandemic will slow future development of hotel rooms.

18. Santa Rosa is positioned to attract continued growth in hotel demand over the long term because of ongoing growth in employment and visitation. Long-term average annual hotel room absorption has been very stable in Sonoma County and Santa Rosa over time. Based on long-term trends, Santa Rosa is estimated to potentially capture growth in demand for between approximately 1,280 to 1,500 additional hotel rooms by 2050.

### *Remaining General Plan Buildout Capacity Versus Demand Estimates*

19. The current General Plan does not appear to allow enough development to accommodate residential and office/R&D demand anticipated over the next 30 years. The exact quantity of any future shortfall will depend on how mixed-use residential properties are developed and whether some office/R&D demand is accommodated at sites that currently have industrial land use designations. The General Plan update is expected to consider accommodating growth both through development of vacant sites and allowing redevelopment or intensification of already developed properties.

## 3.2 INTRODUCTION

This chapter summarizes demographic, employment, and real estate market conditions and trends in Santa Rosa and the surrounding market area. Findings and recommendations in this chapter will inform land use, economic development, and other policy decisions in the Santa Rosa General Plan.

The demographic trends section summarizes key characteristics of Santa Rosa's population and households, highlighting significant trends that shape demand for housing, retail, and services. The section on employment trends describes Santa Rosa's economic base to identify implications for future commercial development. Subsequent sections analyze real estate market conditions for residential, retail, office, industrial, and hotel land uses. The findings highlight significant strengths and challenges affecting future development potential.

The analyzed conditions and trends must be considered within the regional context, since Santa Rosa competes for housing and commercial demand from within a surrounding market area. Therefore, the analyses describe Santa Rosa's demographic, economic and market conditions relative to Sonoma County and different sub-county areas. The competitive market areas were established based on interviews with local real estate brokers and review of market reports and studies for Santa Rosa and nearby cities.

This chapter also provides long-term market demand estimates for office space, industrial space, retail space, housing units, and hotel rooms. These demand estimates describe the quantity of units, rooms, or space that Santa Rosa could potentially attract based on regional growth and local competitive advantages. However, market-based demand does not determine how much actual growth or development will occur in Santa Rosa. The amount of new development that is ultimately accommodated in Santa Rosa's General Plan will depend on a variety of factors, including: the community's values and objectives, the capacity of facilities and infrastructure (including schools), the desired scale of development, and numerous other issues which will be considered during future phases of the General Plan update process.

The final section of this chapter compares the current Santa Rosa General Plan's existing maximum zoned capacity for growth against the demand estimates. This comparison serves as a first step in determining the extent to which zoning regulations may pose a barrier to capturing future growth in demand, and identifying whether zoned capacity can or should be expanded.

Uncertainty currently exists about the scope of the current global COVID-19 pandemic's fast-changing economic impacts. As a result, the data in this report does not capture the most recent impacts of the pandemic, but instead reflects longer-term trends and conditions shortly before the pandemic's onset.

Ultimately, the COVID-19 pandemic will result in a significant decline in economic activity that could last for the next several years. However, it is important to recognize that the demand estimates presented in this report span a thirty-year period through 2050; this period will include recovery from the pandemic and multiple future economic cycles of growth and recession. As a result, this report's demand estimates consider the long-term competitive assets and opportunities that attract investment and growth to Sonoma County and Santa Rosa. To the extent possible, the demand estimates presented in this chapter also incorporate consideration of potential longer-term impacts on each land use resulting from the COVID-19 pandemic, such as changes in the density of workers at businesses, a potential increase in remote work for some jobs, and shifts in travel patterns.

This chapter is divided into the following sections:

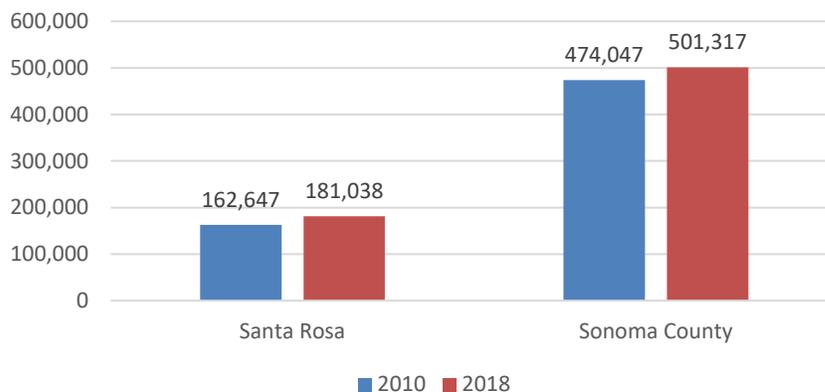
- Market Demand and Economic Opportunity Analysis Findings (Section 3.1)
- Introduction (section 3.2)
- Demographic Analysis (Section 3.3)
- Employment Trends (Section 3.4)
- Housing Market Analysis (Section 3.5)
- Retail Market (Section 3.6)
- Office/R&D Market (Section 3.7)
- Industrial Market (Section 3.8)
- Hotel Market (Section 3.9)
- Remaining Buildout Capacity Versus Demand Estimates (Section 3.10)
- Sources (Section 3.11)

### 3.3 DEMOGRAPHIC ANALYSIS

This section describes Santa Rosa’s population and households, with comparisons to the Sonoma County market area and the nine-county Bay Area. The data analysis includes racial composition, age, household types, and incomes based on American Community Survey 5-Year Estimates for 2006-2010 and 2014-2018 (described as “2010” and “2018,” respectively). Santa Rosa’s demographic characteristics and trends provide context for understanding recent trends in the city’s real estate market conditions and for projecting future demand for different land uses. Note that the American Community Survey 2018 estimates represent an average of data collected between 2014 and 2018, and therefore do not precisely capture population changes that occurred due to the 2017 Tubbs Fire.

Santa Rosa is the largest city in Sonoma County, with an estimated population of 181,000 residents in 2018, as shown in **Figure 3-1**. As of 2018, the city accounted for 36 percent of Sonoma County’s total population. From 2010 to 2018, Santa Rosa grew much faster than the County and the greater Bay Area region: Santa Rosa’s population grew by 11.3 percent, compared to a growth rate of 5.8 percent in Sonoma County and 9.6 percent in the nine-county Bay Area region.

**Figure 3-1.** Total Population in Santa Rosa and Sonoma County, 2010 and 2018



Sources: American Community Survey 5-Year Estimates, 2006-2010 and 2014-2018; Strategic Economics, 2020.

Latinx (Hispanic) residents accounted for three-quarters of recent population growth in Santa Rosa, as shown in **Table 3-1**. The non-Hispanic White population in Santa Rosa declined slightly between 2010 and 2018, while the Latinx population increased by 14,085 residents. The city’s population of other non-White groups, including Asian/Pacific Islander, Black and “other” races also grew during this period. Santa Rosa is relatively diverse compared to the county, with non-White residents constituting higher shares of the population.

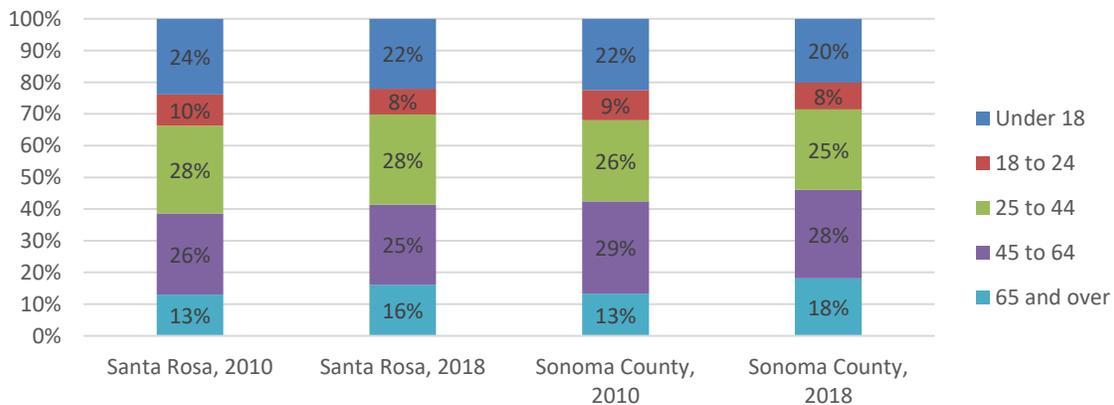
Table 3-1: Race and Ethnicity of Santa Rosa and Sonoma County Population, 2010 to 2018						
	2010		2018		Net Change	Percent Change
	Count	Share	Count	Share		
<b>Santa Rosa</b>						
White	99,687	61%	99,048	55%	-639	-0.6%
Black or African-American	3,329	2%	3,680	2%	351	10.5%
Asian or Pacific Islander	8,766	5%	10,739	6%	1,973	22.5%
Hispanic or Latinx (of any race)	45,278	28%	59,363	33%	14,085	31.1%
All Other Races	5,587	3%	8,208	5%	2,621	46.9%
<b>Total</b>	<b>162,647</b>	<b>100%</b>	<b>181,038</b>	<b>100%</b>	<b>18,391</b>	<b>11.3%</b>
<b>Sonoma County</b>						
White	320,480	68%	318,237	63%	-2,243	-0.7%
Black or African-American	6,629	1%	7,192	1%	563	8.5%
Asian or Pacific Islander	19,793	4%	21,126	4%	1,333	6.7%
Hispanic or Latinx (of any race)	112,084	24%	132,985	27%	20,901	18.6%
All Other Races	15,061	3%	21,777	4%	6,716	44.6%
<b>Total</b>	<b>474,047</b>	<b>100%</b>	<b>501,317</b>	<b>100%</b>	<b>27,270</b>	<b>5.8%</b>
Sources: American Community Survey 5-Year Estimates, 2014-2018; Strategic Economics, 2020.						

The share of residents over age 65 is growing in Santa Rosa, a trend driven by both a decline in the number of younger residents and a net increase in older residents. The number of residents between the ages of 18 to 24 declined by over 1,000 between 2010 and 2018, a seven percent decrease, while the number of residents ages 65 and over grew by approximately 8,000, a 38 percent increase, as shown in **Table 3-2**. This is similar to demographic trends in Sonoma County, which is losing residents under age 24 and gaining residents over age 65. As of 2018, the age distribution of Santa Rosa residents was similar to the Sonoma County age distribution, as shown in **Figure 3-2**.

Table 3-2: Change in Population by Age Category in Santa Rosa and Sonoma County, 2010 to 2018				
	2010	2018	Net Change	Percent Change
<b>Santa Rosa</b>				
Under 18	38,862	39,982	1,120	2.9%
18 to 24	15,879	14,704	-1,175	-7.4%
25 to 44	45,037	51,440	6,403	14.2%
45 to 64	41,703	45,715	4,012	9.6%
65 and over	21,166	29,197	8,031	37.9%
<b>Total</b>	<b>162,647</b>	<b>181,038</b>	<b>18,391</b>	<b>11.3%</b>
<b>Sonoma County</b>				
Under 18	106,522	100,818	-5,704	-5.4%
18 to 24	44,967	42,531	-2,436	-5.4%
25 to 44	121,421	127,183	5,762	4.7%
45 to 64	137,742	139,688	1,946	1.4%
65 and over	63,395	91,097	27,702	43.7%
<b>Total</b>	<b>474,047</b>	<b>501,317</b>	<b>27,270</b>	<b>5.8%</b>

Sources: American Community Survey 5-Year Estimates, 2006-2010 and 2014-2018; Strategic Economics, 2020.

**Figure 3-2.** Population Distribution by Age Category in Santa Rosa and Sonoma County, 2010 to 2018

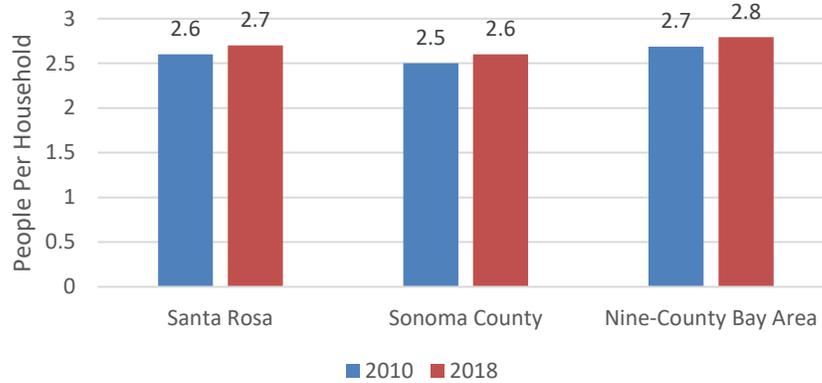


Sources: American Community Survey 5-Year Estimates, 2014-2018; Strategic Economics, 2020.

Santa Rosa has a mix of household types that are nearly evenly distributed between family households, families without children, and single-person households, as shown in **Table 3-3**. Between 2010 and 2018, households consisting of families without children grew at the fastest pace, followed by householders living alone and other non-family households. Santa Rosa's average household sizes increased slightly between 2010 and 2018, as was also true of Sonoma County and the Bay Area, shown in **Figure 3-3**.

<b>Table 3-3: Change in Households by Type in Santa Rosa, Sonoma County, and the Bay Area, 2010 to 2018</b>						
	2010		2018		Net Change	Percent Change
	Count	Share	Count	Share		
<b>Santa Rosa</b>						
Families with children	20,615	33%	19,841	30%	-774	-3.8%
Families without children	18,232	29%	21,171	32%	2,939	16.1%
Householder living alone	18,214	29%	19,497	29%	1,283	7.0%
Other non-family household	5,497	9%	6,120	9%	623	11.3%
<b>Total Households</b>	<b>62,558</b>	<b>100%</b>	<b>66,629</b>	<b>100%</b>	<b>4,071</b>	<b>6.5%</b>
<b>Sonoma County</b>						
Families with children	57,571	31%	53,151	28%	-4,420	-7.7%
Families without children	59,128	32%	67,264	36%	8,136	13.8%
Householder living alone	51,122	28%	52,618	28%	1,496	2.9%
Other non-family household	16,212	9%	16,306	9%	94	0.6%
<b>Total Households</b>	<b>184,033</b>	<b>100%</b>	<b>189,339</b>	<b>100%</b>	<b>5,306</b>	<b>2.9%</b>
<b>Nine-County Bay Area</b>						
Families with children	852,959	33%	871,041	32%	18,082	2%
Families without children	802,686	31%	933,383	34%	130,697	16%
Householder living alone	702,928	27%	674,148	25%	-28,780	-4%
Other non-family household	204,951	8%	236,438	9%	31,487	15%
<b>Total Households</b>	<b>2,563,524</b>	<b>100%</b>	<b>2,715,010</b>	<b>100%</b>	<b>151,486</b>	<b>6%</b>
Sources: American Community Survey 5-Year Estimates, 2006-2010 and 2014-2018; Strategic Economics, 2020.						

**Figure 3-3.** Average Household Size in Santa Rosa, Sonoma County, and the Bay Area, 2010 to 2018

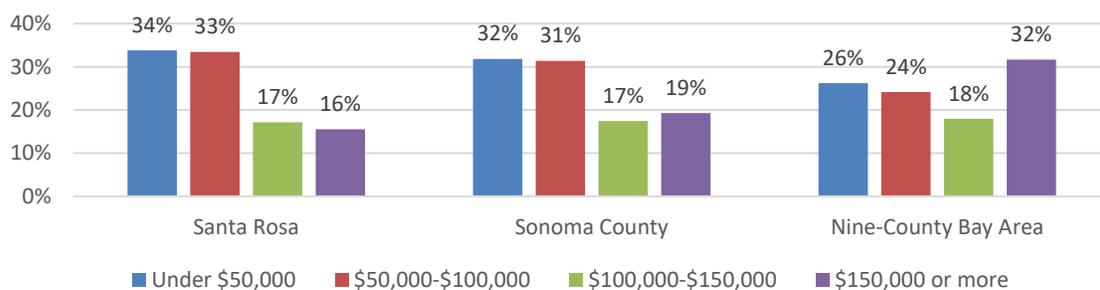


Sources: American Community Survey 5-Year Estimates, 2006-2010 and 2014-2018; Strategic Economics, 2020.

Household incomes in Santa Rosa are slightly lower than those in Sonoma County overall. As of 2018, 34 percent of Santa Rosa households earned incomes under \$50,000 annually while 16 percent of households earned \$150,000 or more, as shown in **Figure 3-4**. In contrast, 19 percent of Sonoma County households earned over \$150,000 annually. Median household incomes rose by about four percent in Santa Rosa between 2010 and 2018, as shown in Figure 3-5. This growth rate was similar to that of Sonoma County households overall, although median household incomes in Santa Rosa were seven percent lower than in Sonoma County as of 2018.

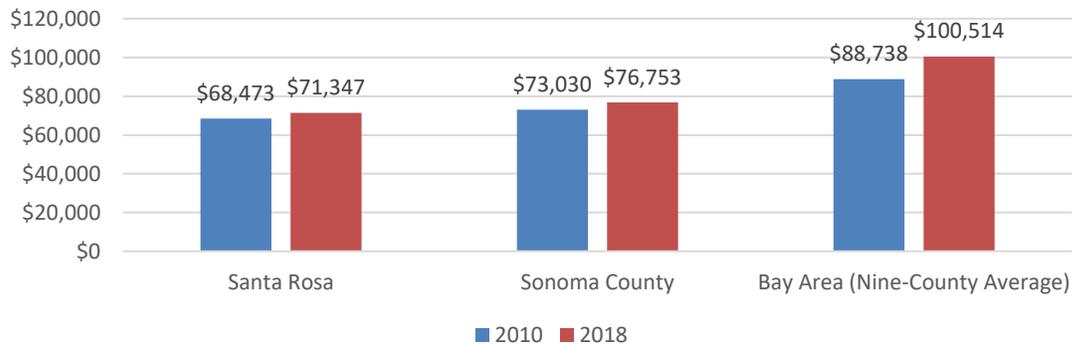
Santa Rosa and Sonoma County have significantly lower shares of households earning more than \$150,000 per year compared to the nine-county Bay Area, as shown in **Figure 3-5**. Income growth in the nine-county Bay Area was also significantly higher than Santa Rosa and Sonoma County between 2010 and 2018 due to significant job growth in the high-wage technology and related industries. As described in the following section, the industry mix of jobs in Santa Rosa and Sonoma County differs significantly compared to the overall nine-county Bay Area.

**Figure 3-4.** Annual Household Income Distribution in 2018, Santa Rosa, Sonoma County, and the Bay Area



Sources: American Community Survey 5-Year Estimates, 2014-2018; Strategic Economics, 2020.

**Figure 3-5.** Median Annual Household Incomes in 2010 and 2018 for Santa Rosa, Sonoma County, and the Bay Area

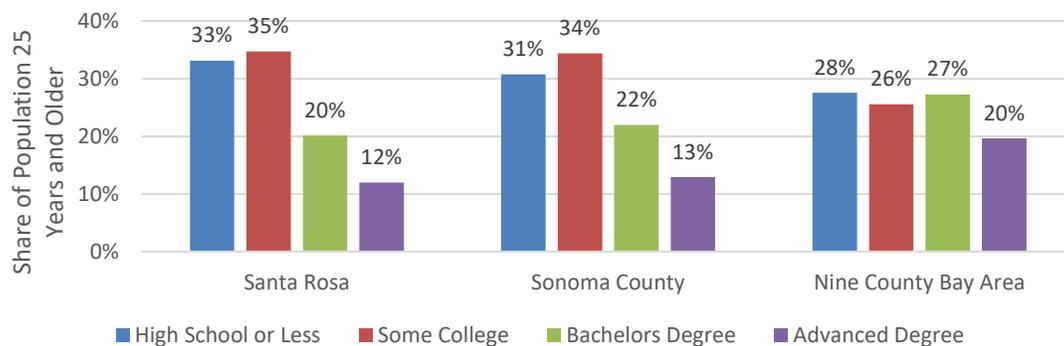


Note: All data presented in 2018 dollars.

Sources: American Community Survey 5-Year Estimates, 2006-2010 and 2014-2018; Strategic Economics, 2020.

The educational attainment levels of adult residents in Santa Rosa closely match those of residents in Sonoma County. However, when compared to the nine-county Bay Area, both Santa Rosa and Sonoma County have a lower share of adult residents with advanced or graduate degrees, and a higher share of residents with a high school education or less. 20 percent of all Bay Area residents have advanced or graduate degrees, as compared with 12 percent in Santa Rosa and 13 percent in Sonoma County, as shown in **Figure 3-6**.

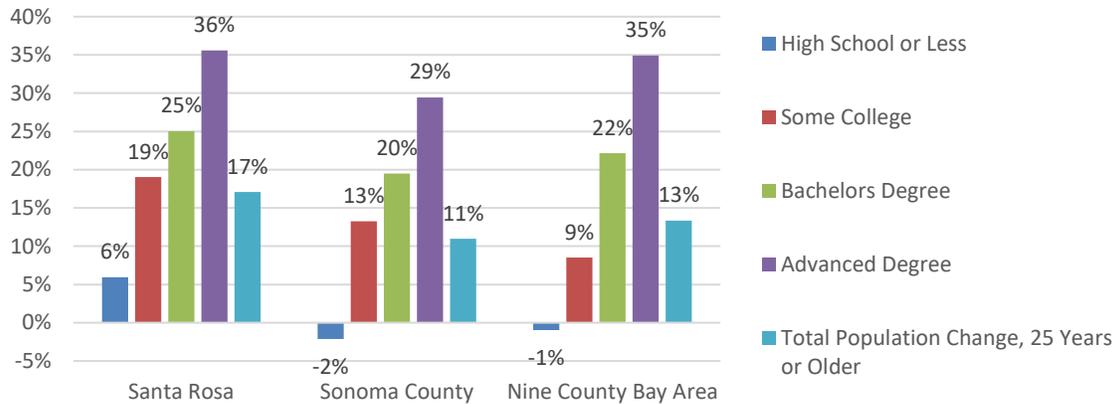
**Figure 3-6.** Educational Attainment for Population 25 Years or Older in 2018, Santa Rosa, Sonoma County, and the Bay Area



Sources: American Community Survey 5-Year Estimates, 2006-2010 and 2014-2018; Strategic Economics, 2020.

The population of Santa Rosa residents with at least some higher education grew rapidly between 2010 and 2018, as shown in **Figure 3-7**. The number of residents over age 25 with advanced degrees grew by 36 percent, while the number of residents with a bachelor's degree grew by 25 percent and those with some college grew by 19 percent. By comparison, the total population increased 17 percent. Sonoma County and the Bay Area experienced similar trends during this period.

**Figure 3-7.** Percent Change in Population Age 25 or Older by Educational Attainment in Santa Rosa, Sonoma County, and the Bay Area, 2010 to 2018



Sources: American Community Survey 5-Year Estimates, 2006-2010 and 2014-2018; Strategic Economics, 2020.

## 3.4 EMPLOYMENT TRENDS

This section summarizes employment and industry trends over the last decade in the City of Santa Rosa and Sonoma County to describe Santa Rosa’s competitive position within the region and the city’s potential to capture future job growth and commercial development.

The employment analysis draws on data from the California Economic Development Department (EDD) Quarterly Census of Wages and Employment (QCEW) for 2009 and 2018, which allows for a historical analysis for Sonoma County; however, this dataset is not available for the City of Santa Rosa. Instead, employment data from the U.S. Census Longitudinal Employment Household Dynamics (LEHD) for 2012 and 2017 provides a supplemental snapshot of the industry mix and concentration of jobs in Santa Rosa relative to Sonoma County.

### Employment Trends in Santa Rosa and Sonoma County

In 2018, Sonoma County had approximately 210,000 jobs, representing a 19 percent increase from 2009. Sonoma County maintained job growth even through the 2017 Tubbs Fire and recovery period, with continued growth year over year between 2015 and 2018.<sup>1</sup>

Sonoma County has a diverse economy with strengths in health care, retail trade, manufacturing, and accommodation and food services, each described briefly below and in **Figure 3-8**.

<sup>1</sup> The EDD QCEW reports approximately 202,000 jobs in 2016, 206,000 jobs in 2017, and 210,000 jobs in 2018 in Sonoma County.

- The health care industry is the largest industry in Sonoma County, with 17 percent of jobs. Two of the county's major hospitals are located in Santa Rosa (Kaiser Permanente Santa Rosa Medical and Santa Rosa Memorial Hospital) and serve the greater North Bay region.
- Retail trade is Sonoma County's second largest industry, with 13 percent of jobs. As with health care, Santa Rosa is one of the few urban centers in the North Bay region and includes a sizeable regional-serving retail inventory that draws customers from a large trade area.
- Manufacturing (12 percent of county jobs) is another important industry in Sonoma County, driven in large part by the agribusiness industry, including wine, beer, and specialty food production and processing. Agribusiness is a longstanding strength of Sonoma County and is closely tied to the Sonoma Valley wine producing region. However, many of the large food and beverage manufacturing employers are located outside of Santa Rosa, and most of the county's agricultural jobs are not located in Santa Rosa.<sup>2</sup>
- Advanced technology research and development (R&D) and manufacturing is another significant industry niche in Sonoma County, including production of medical technologies (related to the strong presence of health care), computer and electronics components, and clean technologies.<sup>3</sup> A few large employers are located in Santa Rosa (e.g. Medtronic, Keysight Technology, and VIAVI Services), but several are also located in other cities such as Petaluma and Rohnert Park (e.g. Enphase Technology, KG Technology).
- Accommodation and food services is another key industry in Sonoma County (11 percent of county jobs), closely tied to the area's status as a well-established destination for tourism and recreation. Santa Rosa constitutes about a third of accommodation and food services jobs in the county.

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<sup>2</sup> Some of the County's largest employers include Amy's Kitchen (with locations in Santa Rosa and Petaluma), Lagunitas Brewing (located in Petaluma), Kendall Jackson Winery (located in unincorporated Sonoma County), Alvarado Bakery (located in Petaluma), and Costeaux Bakery (with production location in unincorporated County).

<sup>3</sup> The North American Industry Classification System (NAICS) is used to classify employment by industry categories. The advanced technology manufacturing subsector described for Sonoma County includes primarily NAICS 333 (Machinery Manufacturing) and 334 (Computer and Electronic Product Manufacturing).

Sonoma County's economy differs from more urban and centrally located Bay Area counties. Sonoma County is relatively far from the Bay Area's largest cities and the county's workforce is relatively small. As a result, Sonoma County has a unique economy compared to the nine-county Bay Area overall, with fewer direct connections to economic trends such as this past decade's tech sector boom.<sup>4</sup>

Household-serving industries largely drove recent employment growth in Sonoma County – health care in particular grew by 44 percent from 2009 to 2018, nearly double the rate of overall county job growth (see **Figure 3-9**). Retail trade also grew significantly, at a similar pace as overall county job growth (16 percent). Jobs in “accommodation and food services” and “food and beverage manufacturing” also grew rapidly (28 percent and 37 percent, respectively) due to the county's position as a food and wine destination.<sup>5</sup> Of note, the construction industry grew very rapidly since 2009, resulting from the region's economic recovery since the depth of the Great Recession and local construction activity following the 2017 Tubbs Fire.

Santa Rosa is the primary economic hub within Sonoma County, accounting for 37 percent of county jobs in 2017 (75,000 jobs). This represents a similar ratio to Santa Rosa's share of the county's total population (36 percent). Furthermore, Santa Rosa's jobs-to-employed-residents ratio (0.93) is similar to the county's overall (0.92), indicating that many Santa Rosa residents may also potentially work in the city.

Santa Rosa is a major hub for government, health care, and education activities within Sonoma County. As the County government seat, Santa Rosa includes three quarters of countywide public administration jobs (see **Figure 3-10**). Other major institutions, such as hospitals and colleges, are also clustered in Santa Rosa, with the city accounting for 40 to 50 percent of countywide jobs in health care and education. These industries are heavily concentrated within Santa Rosa and represent a large share of the city's total employment base.

Santa Rosa also serves as Sonoma County's primary business and financial hub. Santa Rosa includes a large share (41 percent) of county jobs in office-based industries – defined as professional and technical services, finance and insurance, information, real estate, and other management industries. While these industries are not major drivers of growth in Sonoma County, they represent an important strength and competitive advantage of Santa Rosa's local economy. As mentioned previously, Santa Rosa also includes a significant portion of the county's retail jobs (46 percent).

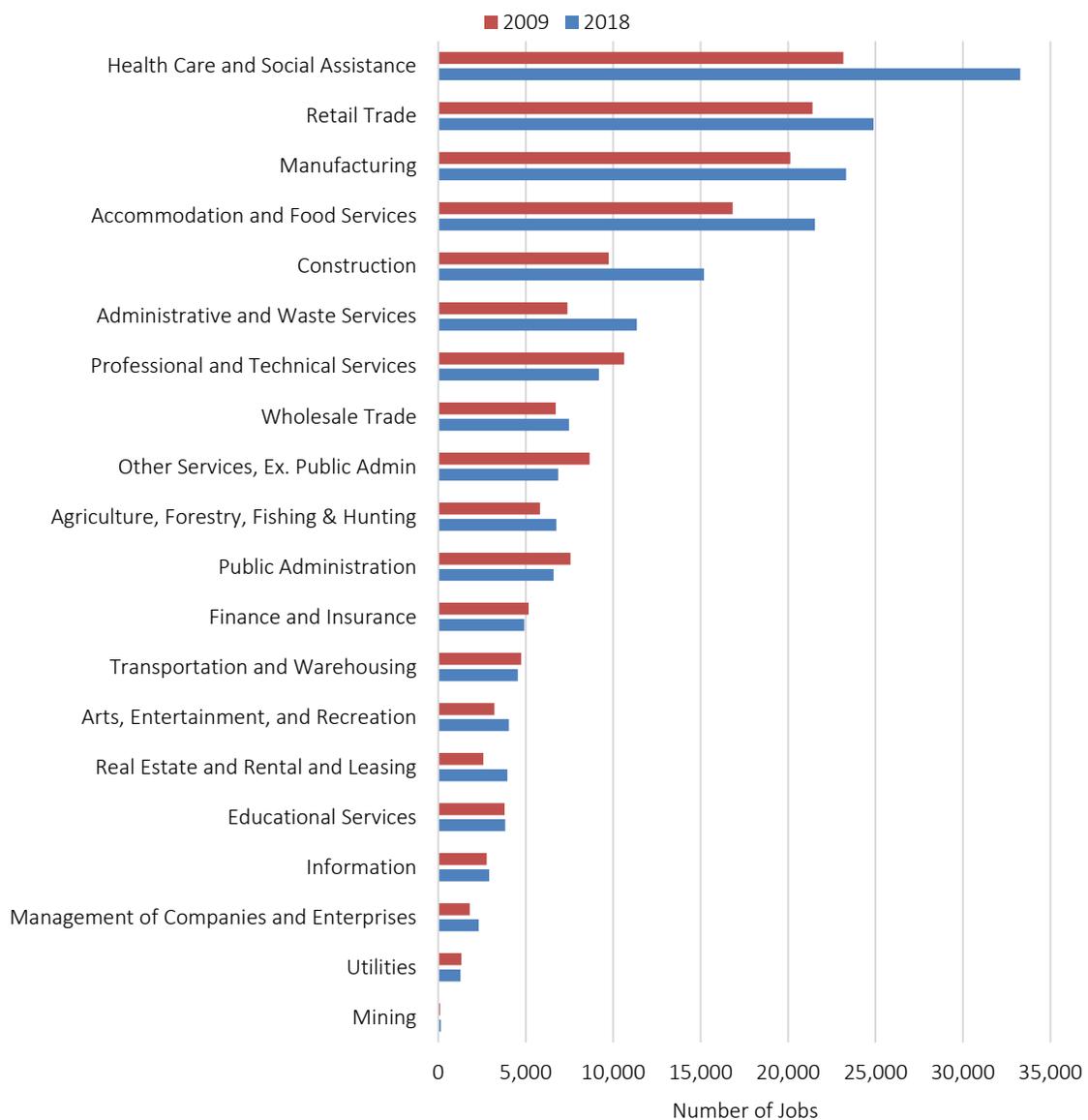
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<sup>4</sup> Small shares of Sonoma County's jobs are in Professional and Technical Services (less than 5 percent) and Information (less than 2 percent). In addition, Sonoma County experienced a decline in Professional and Technical Services and slow growth in Information jobs between 2009 and 2018. In contrast, jobs in both these industries have increased very rapidly in Alameda, San Francisco, and Santa Clara Counties. According to the Metropolitan Transportation Commission's Vital Signs database, Information jobs in the 9-County Bay Area grew by 72 percent between 2009 and 2017, and Professional and Technical Services jobs grew by 36 percent, compared to an overall job growth of 23 percent regionally.

<sup>5</sup> Combined, jobs in NAICS 311 (Food Manufacturing) and NAICS 312 (Beverage & Tobacco Product Manufacturing) grew from 9,058 jobs in 2009 to 12,380 jobs in 2018, or a 37 percent increase.

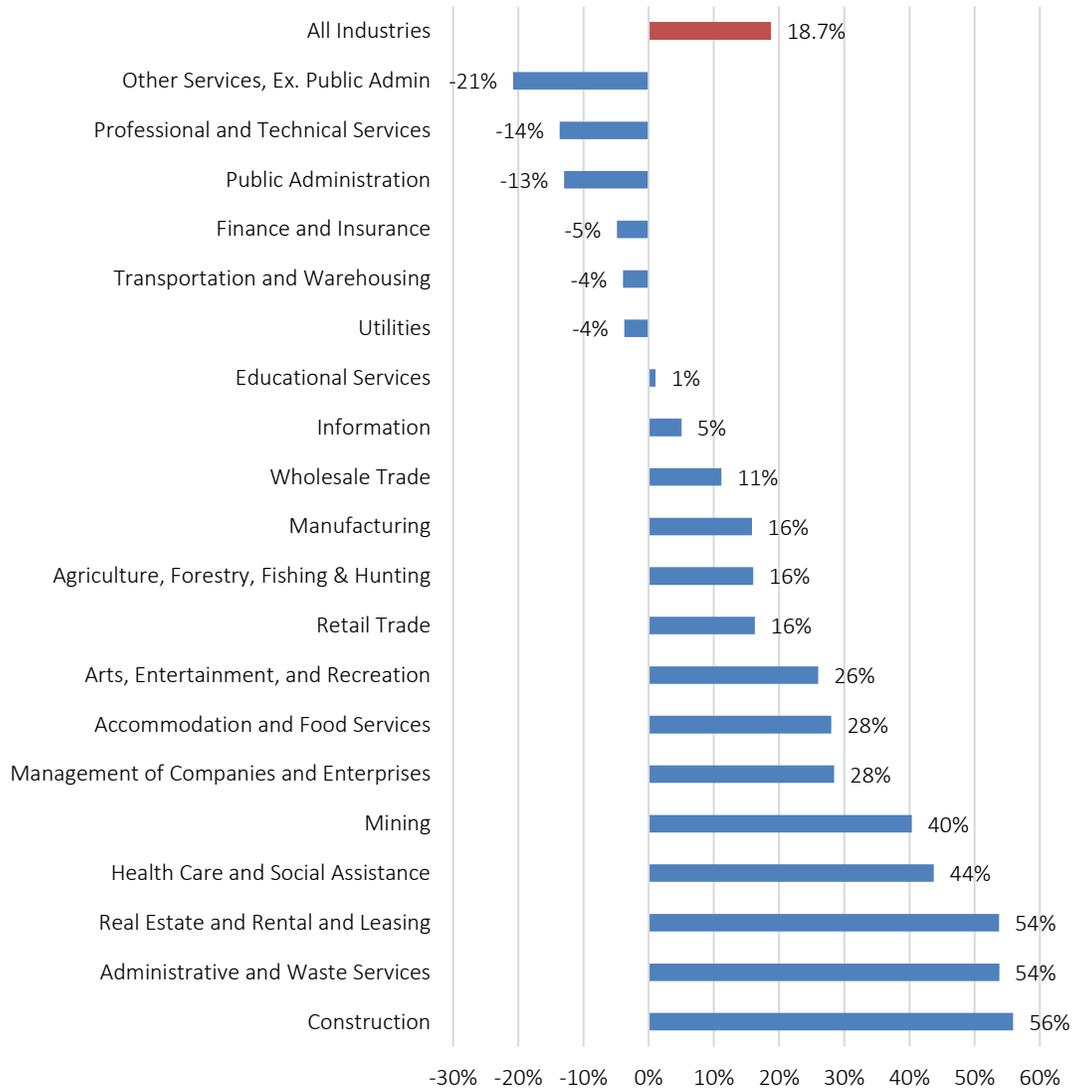
Relative to the county, Santa Rosa includes a relatively small share of manufacturing and agricultural jobs, as might be expected for a more urbanized city. However, food/beverage manufacturing and advanced technology R&D/manufacturing represent potential industries of opportunity for Santa Rosa moving forward. These are key sectors in Sonoma County’s economy, and Santa Rosa could possibly capture some of this growth. For example, Santa Rosa could take advantage of its existing strength in health care to focus on advanced R&D/manufacturing of medical technologies, or leverage its position in the Sonoma Valley region to specialize in an “AgTech” innovation cluster – two examples identified in the 2018 Comprehensive Economic Development Strategy prepared by the Sonoma County Economic Development Board.

**Figure 3-8. Sonoma County Employment by Industry, 2009 and 2018**



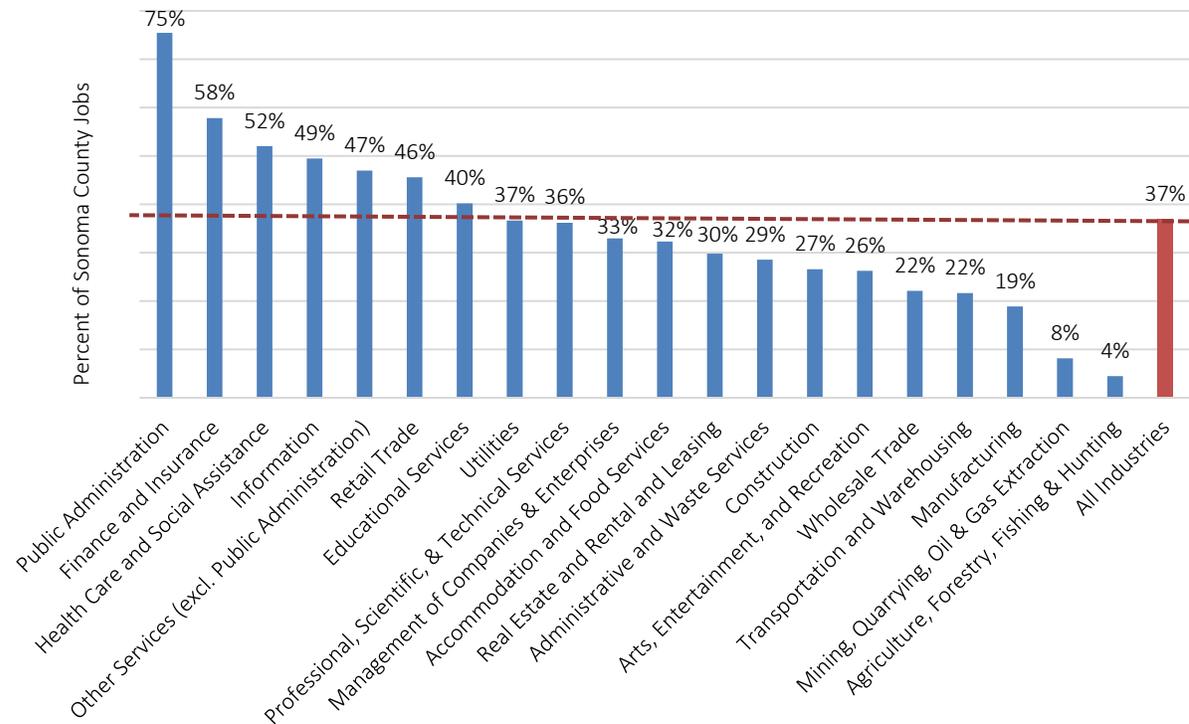
Source: California Economic Development Department Quarterly Census Employment and Wages (QCEW), 2009 and 2018; Strategic Economics, 2020.

**Figure 3-9.** Percent Growth in Sonoma County Employment from 2009 to 2018, by Industry



Source: California Economic Development Department Quarterly Census Employment and Wages (QCEW), 2009 and 2018; Strategic Economics, 2020.

**Figure 3-10. Santa Rosa Employment as a Share of Sonoma County Employment by Industry, 2017**



Source: U.S. Census Longitudinal Employment and Household Dynamics, 2017; Strategic Economics, 2020.

## 3.5 HOUSING MARKET ANALYSIS

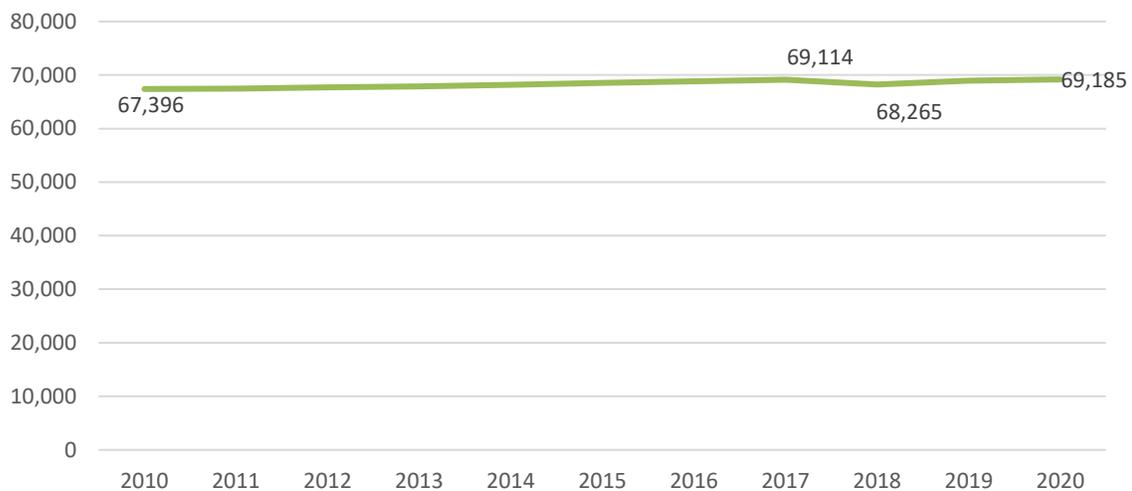
This section provides an overview of the Santa Rosa housing market, with comparisons to the market area within which Santa Rosa competes for housing demand. The market area primarily consists of urban areas within central and southern Sonoma County, and especially Petaluma and Rohnert Park since these cities are nearby urban centers located along Highway 101. To a lesser extent, Santa Rosa also competes for housing demand from throughout Sonoma County. The residential market analysis describes housing inventory by product type, sales price and rent trends, trends in housing development, and provides estimates of total citywide housing demand through the year 2050.

Santa Rosa, like many communities in the Bay Area and in California, is experiencing the effects of a statewide housing shortage. The shortage and high cost of housing in the Bay Area overall represent a long-term challenge resulting from several longstanding factors, including strong demand for housing due to the region's fast-growing economy, regulatory obstacles to development, and high construction costs. Within Sonoma County, the local housing shortage was further exacerbated in 2017 by the Tubbs Fire, which destroyed approximately 850 housing units in Santa Rosa and a total of 4,500 units in Sonoma County.

## Housing Inventory

Santa Rosa has 69,185 housing units according to January 2020 estimates from the California Department of Finance, with total inventory growing over time despite losses due to the Tubbs Fire. According to the American Community Survey (ACS), Santa Rosa's housing inventory represents about one third of the total units in Sonoma County. The city added a total of 1,700 total housing units between 2010 and 2017, but lost 850 homes as a result of the Tubbs Fire in October of 2017, as shown in **Figure 3-11**. These homes were primarily located in neighborhoods consisting of single-family homes in the northern portion of Santa Rosa. Subsequently, the city added an additional 920 housing units between 2018 and 2020, bringing the net change in units over the last decade to 1,789.<sup>6</sup>

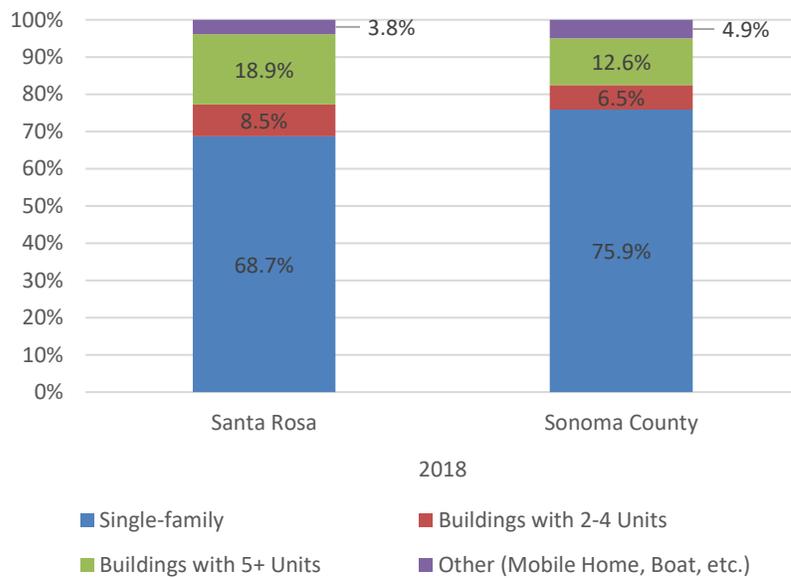
**Figure 3-11.** Housing Units in Santa Rosa, 2010 to mid-2020



Source: California Department of Finance, 2020; Strategic Economics, 2020.

Santa Rosa's housing stock is more diverse than in Sonoma County overall, although most inventory consists of single-family homes. Approximately 69 percent of housing units in Santa Rosa were single-family homes as of 2018. By comparison, single family homes accounted for 76 percent of all units in Sonoma County. Approximately nine percent of Santa Rosa's housing units were located in duplexes, triplexes, and four-unit buildings, while 19 percent were located in multifamily properties with five or more units, as shown in **Figure 3-12**.

<sup>6</sup> Data sources in this section include both the California Department of Finance (DoF), which provides total housing inventory estimates on an annual basis, and the American Community Survey (ACS), which provides estimates of occupied housing units and household demographic attributes that are based on a sample conducted over a five year period. Because of the differing methodologies, these two sources provide slightly different numbers for housing inventory. For example, the ACS 2014-2018 estimates reported a total of 69,922 occupied housing units, which is a higher figure than the DoF estimate of 69,185 because the rolling five-year sample includes data from years prior to the Tubbs Fire.

**Figure 3-12. Housing Units by Building Structure Type, 2018**

Sources: American Community Survey 5-Year Estimates, 2014-2018; Strategic Economics, 2020.

## Housing Tenure

A relatively high share of Santa Rosa's housing units are rented rather than owner-occupied, and single-family homes constitute a high share of the rental housing stock. 46 percent of Santa Rosa's occupied housing units were rented as of 2018, compared to 39 percent in Sonoma County, as shown in **Table 3-4**. The share of owner-occupied housing units in Santa Rosa and Sonoma County declined slightly between 2010 and 2018. 45 percent of Santa Rosa's rented housing units and 52 percent of Sonoma County's rented housing units were single-family homes rather than multiunit buildings in 2018.

	Santa Rosa		Sonoma County	
	2010	2018	2010	2018
<b>Renter-Occupied Housing Units:</b>	<b>43.8%</b>	<b>46.4%</b>	<b>37.6%</b>	<b>39.2%</b>
Single Family Homes	18.8%	21.0%	19.1%	20.5%
Buildings with 2 - 4 Units	7.7%	7.7%	6.0%	5.8%
Buildings with 5 + Units	16.6%	17.1%	11.4%	11.9%
Other (Mobile Home, Boat, etc.)	0.6%	0.6%	1.1%	1.0%

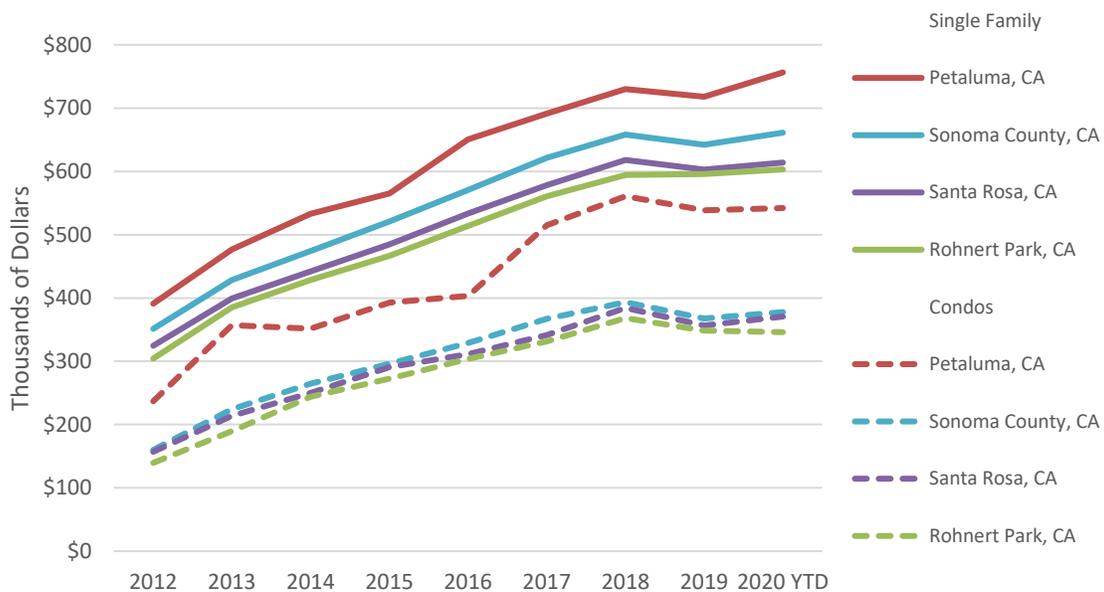
	Santa Rosa		Sonoma County	
	2010	2018	2010	2018
<b>Owner-Occupied Housing Units:</b>	<b>56.2%</b>	<b>53.6%</b>	<b>62.4%</b>	<b>60.8%</b>
Single Family Homes	50.8%	48.5%	56.5%	55.0%
Buildings with 2 - 4 Units	1.0%	0.7%	0.7%	0.7%
Buildings with 5 + Units	0.9%	1.2%	0.7%	0.9%
Other (Mobile Home, Boat, etc.)	3.6%	3.3%	4.4%	4.1%

Source: American Community Survey 5-Year Estimates, 2006-2010 and 2014-2018.

## Performance Trends

The average sales price of single-family homes increased significantly within the last eight years in Santa Rosa, according to data from Redfin. The average sales prices for single-family homes in the first half of 2020 was \$603,000, up from \$325,000 in 2012, representing an increase of 86 percent. Santa Rosa's single-family home price appreciation since 2012 has been lower than Petaluma's, but comparable to Rohnert Park and the Sonoma County average, as shown in **Figure 3-13**. Similarly, Santa Rosa's condominium sales prices were consistently below Petaluma's between 2012 and 2020, but were similar to Rohnert Park and countywide prices.

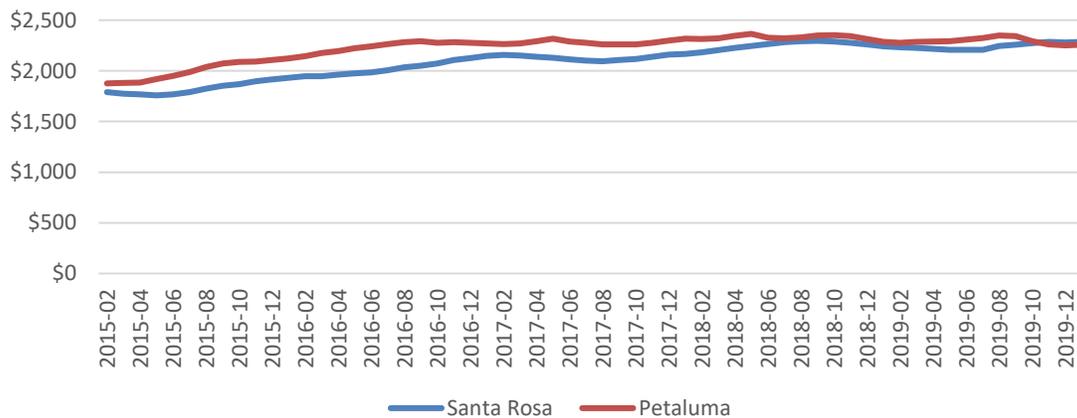
**Figure 3-13. Average Home Sales Price, Santa Rosa and Nearby Cities**



Sources: Redfin, 2020; Strategic Economics, 2020.

Average monthly rents for all unit types in Santa Rosa were \$2,285 per unit as of January of 2020, based on data from Zillow, up 28 percent from \$1,789 as of the second quarter of 2015. Note that these figures represent asking rents for units of varying sizes and housing types, including apartment units and single-family homes. Rents also increased in Petaluma, the only other city in Sonoma County for which comparison data was available from Zillow. However, rents increased faster in Santa Rosa (28 percent) than they did in Petaluma (20 percent) during this period. Rents in both cities have been flattening since 2018, as shown in **Figure 3-14**.

**Figure 3-14.** Rents per Housing Unit in Santa Rosa and Petaluma, 2015 to 2019



Note: Data represents the average of the middle quintile of asking rental rates.

Source: Zillow Rent Index, January 2020.

Santa Rosa has a significantly larger inventory of multifamily apartment units relative to Petaluma and Rohnert Park, the other major benchmark cities within the local housing market, as shown in **Table 3-5**. However, rental rates in these apartment buildings are lower in Santa Rosa than in Petaluma or in Rohnert Park on a per square foot basis. Average vacancy rates across Sonoma County were about four percent as of the second quarter of 2019, according to the real estate brokerage firm CBRE.

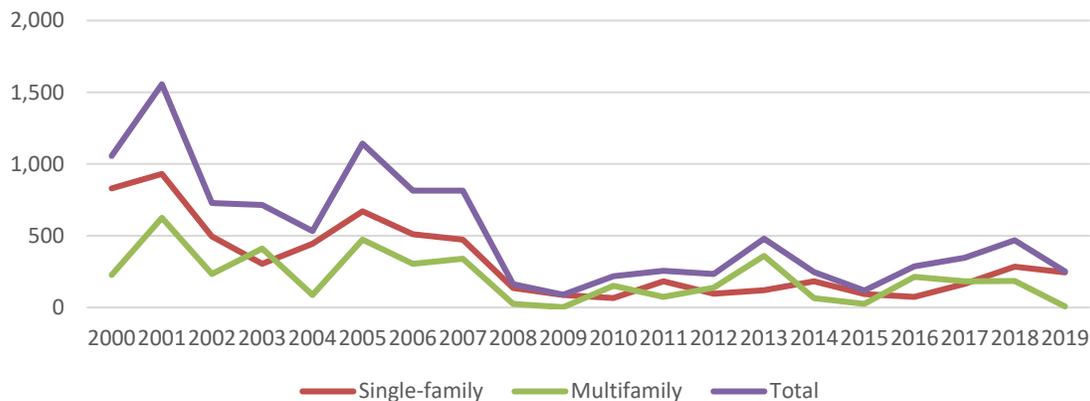
**Table 3-5: Multifamily Apartment Inventory and Rents, Projects Completed Prior to 2019**

	Santa Rosa	Petaluma	Rohnert Park
Inventory Tracked (Units)	1,108	167	169
Average Rent (per Sq. Ft.)	\$1.89	\$2.08	\$2.13
Notes: (1) Rental rates represent effective rents for market-rate properties with two or more units. (2) Vacancy rates for multifamily apartments were estimated to be 4.4% as of Q2 of 2019 for all of Sonoma County, according to CBRE. Sources: Costar, 2020; Strategic Economics, 2020.			

## Development Trends

Housing permitting was significantly lower in Santa Rosa between 2010 and 2020 relative to the previous decade and has not returned to pre-Great Recession levels. Excluding fire rebuild permits, Santa Rosa issued permits for a total of 10,518 housing units between 2000 and 2019, 74 percent of which were permitted between 2000 and 2009. Permitting trends are presented in **Figure 3-15**, which does not show fire rebuild permits issued following the Tubbs Fire since these units largely represent replacements of previously existing homes.

**Figure 3-15.** Building Permits Issued in Santa Rosa by Housing Type (Excluding Fire Rebuild Permits), 2000-2019



Note: Does not account for fire rebuild permits.

Sources: City of Santa Rosa Housing Allocation Plan Ordinance Update, July 2019; City of Santa Rosa Building Permit Monthly Activity Reports, 2019 (accessed July 2020 at <https://srcity.org/Archive.aspx?AMID=53>); Strategic Economics, 2020.

Multifamily housing unit permits have been growing as a share of all Santa Rosa permits, although single family homes still constitute the majority of permitting activity. **Table 3-6** shows that multifamily housing unit permits increased from 36 percent of permitting activity between 2000 and 2009 to 48 percent of permitting activity between 2010 and 2019 (excluding fire rebuild permits).

Over the last fifteen years, Santa Rosa has adopted several policies to promote relatively dense infill multifamily housing development, including the Downtown Specific Plan and the more recent Housing Action Plan. Despite these efforts, few new higher-density multifamily development projects were permitted or built over the past decade. This is due primarily to financial feasibility challenges resulting from high and increasing construction costs that outpace attainable rents and condominium sales prices in Santa Rosa.

**Table 3-6: Units Permitted in Santa Rosa by Housing Type and By Decade, 2000 to 2019**

	2000-2009		2010-2019	
	Number of Units	Share of Units	Number of Units	Share of Units
Single Family	4,880	64.1%	1,507	51.8%
Multifamily	2,731	35.9%	1,400	48.2%
<b>Total</b>	<b>7,611</b>		<b>2,907</b>	

Sources: City of Santa Rosa, 2019; Strategic Economics, 2020.

Even though Santa Rosa permitted fewer units overall between 2010 and 2019, the share of permits issued by Santa Rosa relative to permits issued within South and Central Sonoma County remained relatively stable over time. This underscores the fact that low permitting in Santa Rosa is reflective of market constraints within the entire market area, rather than due to any city-specific policy constraint. As shown **Table 3-7**, below, Santa Rosa permitted a similar share of the local market area's housing units between 2010 and 2019 as it did during the 2000 to 2009 period (based on Santa Rosa's share of permits issued by cities in southern and central Sonoma County, including Santa Rosa, Sebastopol, Cotati, Rohnert Park, Petaluma, and Sonoma).<sup>7</sup>

**Table 3-7 Housing Unit Permits Issued in Santa Rosa as a Share of Units Permitted in South and Central Sonoma County, 2000-2019**

	2000-2004	2005-2009	2010-2014	2015-2019
Santa Rosa Share of Multifamily Units Permits	49%	82%	56%	60%
Santa Rosa Share of Single-Family Permits	73%	65%	67%	70%
<b>Santa Rosa Share of Total Permits</b>	<b>64%</b>	<b>72%</b>	<b>61%</b>	<b>68%</b>

Sources: U.S. Department of Housing and Urban Development, 2020; Strategic Economics, 2020.

Based on long-term trends, multifamily housing units are likely to constitute a growing share of development activity in Santa Rosa. While demand for single-family homes is still high, as indicated by rapidly increasing prices for single-family homes, there are a limited number of additional sites in desirable locations where significant single-family housing development can occur in Santa Rosa, such as near Highway 101. Additionally, City policy changes to reduce permitting time, provide incentives for higher-density residential projects in the Downtown area, and to waive or reduce fees for multifamily units will likely collectively improve the potential feasibility of multifamily development projects.

<sup>7</sup> The relatively high share of multifamily units permitted in Santa Rosa between 2005 and 2009 was a reflection of unusually low permitting of multifamily housing in other cities within the local market area during those five years.

### *Development Pipeline*

Recently completed or planned and proposed major housing projects in Santa Rosa range from major subdivisions of single-family homes, such as the 143-unit Fox Hollow development in northwest Santa Rosa, to small-scale apartment buildings, such as the 96-unit Canyon Oaks garden-style apartments in the Fountaingrove area.

There are currently several proposed residential projects in various phases of review in Santa Rosa, most of which are multifamily. The largest project in terms of units is the proposed Chanate Complex in northeastern Santa Rosa. This mixed-use project consists of 867 units, about 55 percent of which would be designated for low-income residents, seniors, and veterans, and which would include some commercial space.

Several multifamily projects have also been proposed in the Downtown Specific Plan area, including Avenue 320, a 40-unit residential project; 1 Santa Rosa Avenue, a 120-unit mixed use building with market-rate and affordable units facing Courthouse Square; and The Flats at 528 B Street, a 24-unit mixed-use project with ground-floor office space.

Several proposals comprised of single-family homes are also currently under review, including Cherry Ranch, a single-family, infill subdivision consisting of 67 units near the western edge of the city, and a 138-unit development in Roseland with roughly half of the units being single-family homes. In line with data presented in the “Demographic Analysis” section that indicates a growing share of individuals over age 65 in Santa Rosa, three currently proposed projects are partially or primarily targeted towards seniors.

### **Future Residential Demand**

This section describes demand estimates for new housing units in Santa Rosa through 2050. The demand estimates are based on draft projections for new households from the Association of Bay Area Governments/Metropolitan Transportation Commission (ABAG/MTC). The ABAG/MTC projections project new household growth based partly on projected employment growth. ABAG/MTC’s draft 2050 projections for the entire region are significantly higher than previous 2040 projections, and as a result the projections for Sonoma County are also significantly higher than past estimates.<sup>8</sup>

As of August 2020, ABAG/MTC made household growth projections available for each county and for sub-county “superdistricts.” The two superdistricts that best represent Santa Rosa’s residential market area are “Central” and “South” Sonoma County, which include the incorporated cities of Sebastopol, Santa Rosa, Sonoma, Rohnert Park, Cotati and Petaluma. The projections for Santa Rosa presented below reflect two likely scenarios for the share of new

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<sup>8</sup> This is due to a recent policy change which requires ABAG/MTC to account for households that must commute into the region for work due to a shortage of housing options within the nine-county Bay Area. The 2050 projections have also been adjusted to reflect the stronger-than-anticipated employment growth that occurred within the last few years, as well as the fact that the new population in the region is slightly older than historical projections expected, and therefore more likely to form independent households.

households and corresponding housing demand that the city can potentially capture out of the total projected household growth for these two superdistricts.

The two demand estimates presented in **Table 3-8** respectively reflect the following assumptions:

- **Low Scenario:** This scenario assumes that Santa Rosa’s capture of new households and associated housing unit demand in the South and Central Sonoma County subregions will be equivalent to the city’s existing share of housing units within the two superdistricts as of 2015.
- **High Scenario:** This scenario assumes that Santa Rosa’s capture of projected household growth (and associated housing unit demand) in the South and Central Sonoma County subregions will be equivalent to the city’s share of housing permits issued between 2000 and 2019 among the incorporated cities within the two superdistricts. As noted previously, Santa Rosa’s share of permitting activity within this area has remained fairly stable over the past twenty years.

ABAG/MTC is currently projecting that there will be 73,000 new households in the South and Central Sonoma County Regions between 2015 and 2050, translating to average annual growth of 2,086 households. Based on these growth estimates, the demand estimates shown in **Table 3-8** indicate that Santa Rosa could capture demand for between 35,600 and 41,650 new housing units. Note that actual annual household growth figures will vary throughout the course of the next 30 years. ABAG/MTC anticipates that a greater share of regional household growth will occur by 2040 and that household growth will flatten between 2040 and 2050.

Projected household numbers do not necessarily indicate the amount of housing inventory growth that will actually occur, especially since housing demand has long outstripped growth in supply throughout much of the Bay Area. A variety of factors will impact actual housing growth, including zoning, financial feasibility, affordability, macroeconomic conditions that affect financing conditions, nearby employment growth, and incomes of area residents. Note that the COVID-19 pandemic may impact housing growth within the next few years; although these impacts are difficult to predict, housing development activity may slow due to the related recession and increased challenges in obtaining financing for home purchases and construction loans.

Table 3-8: Housing Demand Growth Estimates, 2020 to 2050	
Assumptions	
Households in South and Central Sonoma County, 2015	154,000
Projected Households in South and Central Sonoma County, 2050	227,000
Net Change in Households, South and Central Sonoma County, 2015-2050	73,000
Average Annual Growth in New Households, 2015-2020	2,086
Housing Demand Growth Estimates	
Approach 1 (Low): Capture Rate Based on Housing Permits Issued	
Santa Rosa Share of South/Central Sonoma County Units [1]	56.9%

<b>Table 3-8: Housing Demand Growth Estimates, 2020 to 2050</b>	
Average Annual Growth in New Housing Unit Demand in Santa Rosa, 2020-2050	1,187
Projected New Housing Unit Demand in Santa Rosa, 2020-2050	35,600
<b>Approach 2 (High): Capture Rate Based on Existing Share of Housing Units</b>	
Santa Rosa Share of South/Central County Permits [2]	66.6%
Average Annual Growth in New Housing Unit Demand in Santa Rosa, 2020-2050	1,389
Projected New Housing Unit Demand in Santa Rosa, 2020-2050	41,650
<p>[1] Reflects housing inventory data from ACS for South and Central Sonoma County, defined to include the incorporated cities of Sebastopol, Santa Rosa, Sonoma, Rohnert Park, Cotati, and Petaluma</p> <p>[2] Reflects housing permit data for 2000 to 2010 from the U.S. Department of Housing and Urban Development for South and Central Sonoma County, including the same cities as above.</p> <p>Sources: American Community Survey 5-Year Estimates, 2011-2015; U.S. Department of Housing and Urban Development, 2019; Association of Bay Area Governments/Metropolitan Transportation Commission, 2020; Strategic Economics, 2020.</p>	

While this analysis does not project precise demand for different housing types, there are indications that demand will remain strong for both single-family and multifamily housing products. The significant price appreciation for single-family homes, shown in the “Trends in Sales Price” section, indicates that there is substantial demand for single-family housing in Santa Rosa. However, the demographic trends discussed in the “Demographic Analysis” section demonstrate that the share of households without children and the share of seniors in Santa Rosa are increasing. These household types and age groups generally have lower space requirements than families with children. If these trends continue, then these groups are likely to generate demand for more multifamily housing.

Multifamily products are also likely to constitute an increasing share of the city’s housing growth in the future due to increasingly limited site availability. There are few remaining sites for significant new single-family home development within the current Santa Rosa city limits and Urban Growth Boundary, especially in locations near Highway 101 and near major amenities. In contrast, infill locations in the Downtown Specific Plan Area provide access to transportation and retail amenities, and the Downtown Station Area Specific Plan itself allows and incentivizes higher-density multifamily products.

Recently constructed and planned or proposed development projects will absorb some of the projected demand for housing. As of August of 2020, there were approximately 1,638 units under review, 155 units with permits issued that have not broken ground, 631 units under construction, and 162 that were recently completed, for a total of 2,586 units according to Santa Rosa’s Housing Unit Tracker. Of these, 1,026 (or about 40 percent) are for multifamily units. Note that these counts do not include fire rebuild units. If all units currently under review, permitted, or under construction are built, approximately seven percent of the low household demand projection or six percent of the high household demand projection will be absorbed by these projects.

## 3.6 RETAIL MARKET ANALYSIS

This section describes current trends and conditions in the Santa Rosa retail market, with comparisons to Sonoma County. It provides an overview of national trends affecting retail, information on Santa Rosa’s retail supply and performance, the competitive trade areas within which Santa Rosa retail competes for customers, and concludes with demand estimates for additional retail space by 2050.

### National Retail Trends

Demand for retail in Santa Rosa is affected by broader shifts in the global retail industry. Americans continue to shop, but where and how they shop have impacts on the performance and location of existing and future brick-and-mortar businesses. Major trends that affect the demand for new retail space include both the long-term effects of the rise in e-commerce, and the shorter-term but significant effects of the COVID-19 pandemic.

Nationally, the retail industry is growing and reorganizing in response to the rise of e-commerce. In 2019, consumer expenditures in the U.S. hit an all-time high, but much of this growth in expenditures on hard and soft goods is occurring online rather than at brick-and-mortar stores. This process is reducing the demand for products sold in physical stores, particularly in large-format retail stores and malls. In contrast to traditional retailers, experiential businesses (such as eating and drinking establishments or interactive retail concepts) are performing well. Additionally, store categories that fulfill non-discretionary, daily household needs, such as grocery stores and general merchandise stores, continue to perform well and to date have not been dramatically disrupted by changing consumer spending habits.

In response to changing consumer purchasing habits, several major national retailers that anchor retail space in malls, such as Sears, have declared bankruptcy or are rapidly closing stores. Many of the nation’s malls are coping with empty anchor tenant spaces by repurposing them for experiential uses, such as entertainment, or are redeveloping some of their space as housing and hotel uses.

The COVID-19 pandemic is already curtailing retail sales across the country, although the full impacts are still unknown. However, mandatory temporary store closures, economic uncertainty, and high unemployment are reducing consumer retail spending at non-essential businesses and especially physical retail locations. As a result, shelter-in-place orders are accelerating the shift to online sales. Numerous temporary store and restaurant closures are likely to occur in the coming years due to these trends.

### Retail Supply and Trends

Santa Rosa’s retail mix can best be understood as a set of shopping centers or districts competing for consumer demand. Each shopping center or retail district serves a unique “trade area,” within which it primarily attracts its customers. Large shopping centers—such as malls, regional lifestyle centers, power centers, and community centers—are destinations that serve a larger trade area and offer infrequently purchased “comparison goods” such as apparel and appliances. Smaller

centers—such as neighborhood centers—typically consist of stores providing frequently purchased day-to-day needs such as groceries, dry cleaning, salons, and coffee shops. **Table 3-9** shows different shopping center categories, their typical districts, and examples from Santa Rosa.

Table 3-9: Typical U.S. Shopping Center Types and Characteristics					
Type of Shopping Center	Typical Size (sq ft)	Acres	Typical Anchors	Trade Area Size/ Drive-time	Examples
Regional and Super Regional Malls	400,000 to 800,000	40 to 100	General merchandise or fashion-oriented anchors, may include department stores, mass merchants, and/or fashion apparel	5-15 miles/ 15-20 minutes	Santa Rosa Plaza; Coddington Mall
Lifestyle Centers	150,000 to 500,000	10 to 40	Large format upscale specialty stores	8-12 miles/ 15-20 minutes	Montgomery Village, Petaluma Village Premium Outlets
Power Centers	250,000 to 600,000	25 to 80	Category-dominant anchors, often in more than one freestanding structures, with only a few small tenants	5-10 miles/ 15-20 minutes	Santa Rosa Marketplace, Rohnert Park Expressway Center
Community Center	125,000 to 400,000	10 to 40	General merchandise or convenience-oriented anchors, may include discount stores, grocery stores, drug stores, and/or large specialty stores (home improvement/ furnishings, sporting goods, etc.)	3-6 miles/ 10-15 minutes	Marlow Center; Stony Point Plaza
Neighborhood Center	30,000 to 125,000	3 to 5	Convenience-oriented, typically anchored by a grocery and/or drug store	3 miles/ 5-10 minutes	Roseland Village Shopping Center; Fulton Market Place
Strip or Convenience Center	Less than 30,000	Less than 3	Un-anchored, or anchored by a small convenience store (e.g. 7-Eleven)	<1 mile/ < 5 minutes	Various along Sebastopol Road
Sources: International Council of Shopping Centers, 2017; CoStar, 2017; Strategic Economics 2020.					

Santa Rosa serves as Sonoma County’s primary regional retail destination and accounts for about 40 percent of countywide inventory, as shown in **Table 3-10**. Between 2010 and the first half of 2020, the net retail inventory in Santa Rosa declined by about 144,000 square feet (1.4%) as a result of the Tubbs Fire in 2017, which destroyed several retail buildings.

Retail centers in Santa Rosa are performing well overall, with low vacancy rates. The vacancy rate for Santa Rosa retail is on par with the rate countywide at 3.8 percent. Overall rents are comparable to the county, as shown in **Table 3-10**, though retail rents always vary widely based on specific location and storefront size. Local brokers reported that rents range from \$1.75 to \$1.90 per square foot for an unanchored strip center, with higher rents at major regional centers.

	Inventory (in Sq Ft)	Vacancy (%)	Average Monthly Rents (NNN)
Santa Rosa	10,080,019	3.8%	\$1.60
Sonoma County	24,799,208	3.8%	\$1.63

Sources: Costar, 2020; Strategic Economics, 2020.

Santa Rosa Plaza and the Coddington Mall are the only indoor malls in Sonoma County and are both located in Santa Rosa. Both malls are well-positioned to serve their regional trade areas due to their proximity to Highway 101. Some of the same chain stores, such as Macy’s, are present in both malls, suggesting that Santa Rosa Plaza and Coddington Mall may compete for customers.

The tenant mix in each mall is evolving in response to the national trends described previously. The Coddington Mall has a mix of eating and drinking establishments, clothing stores, grocery stores, and general merchandise retailers, including a brewhouse, JC Penney, Target, and a newer Whole Foods. Local retail brokers indicated that some local shoppers make trips to the Coddington Mall to meet their regular household needs at its grocery and general merchandise retailers, although these shoppers are relatively unlikely to visit the stores within the mall itself.

Santa Rosa Plaza, located in Santa Rosa’s Downtown, has a variety of apparel tenants as well as brands like Apple and Disney. The mall recently lost a Sears store, one of its anchor tenants, as a result of the chain’s national contraction. Additionally, Forever 21, which occupies another major anchor tenant space, filed for bankruptcy in the Fall of 2019 and announced plans to close many stores, although the Santa Rosa Plaza store remains open as of August of 2020. Despite these challenges related to the general restructuring of traditional retail stores, market analyses completed in 2019 by Economic and Planning Systems and Dyett and Bhatia found that the mall commands some of the highest rents in the city and remains a desirable regional destination.

In addition to the city’s malls, Santa Rosa’s retail inventory includes a variety of community and neighborhood retail centers and individual retail buildings in the Downtown area. The city’s neighborhood retail centers are well-distributed geographically, with their respective trade areas collectively serving residents throughout Santa Rosa. Brokers in the area noted that performance of the city’s retail centers was stable over the last few years, with healthy vacancy rates and

average monthly rents for grocery-anchored retail centers of about \$2.25 per square foot (on a triple-net basis).

Downtown Santa Rosa's major retail subareas include the aforementioned Santa Rosa Plaza Mall, Railroad Square, and Courthouse Square. Santa Rosa's Downtown benefits from amenities that are associated with desirable urban locations in the rest of the Bay Area, such as a walkable street grid and the new SMART train station in Railroad Square. Currently both Railroad Square and Courthouse Square have a tenant mix that includes restaurants, nightlife establishments, small-scale retail, and, particularly in Courthouse Square, resident-serving professional service businesses. Railroad Square also has several mid- and upper-midscale hotels and receives customer traffic from both residents and visitors.

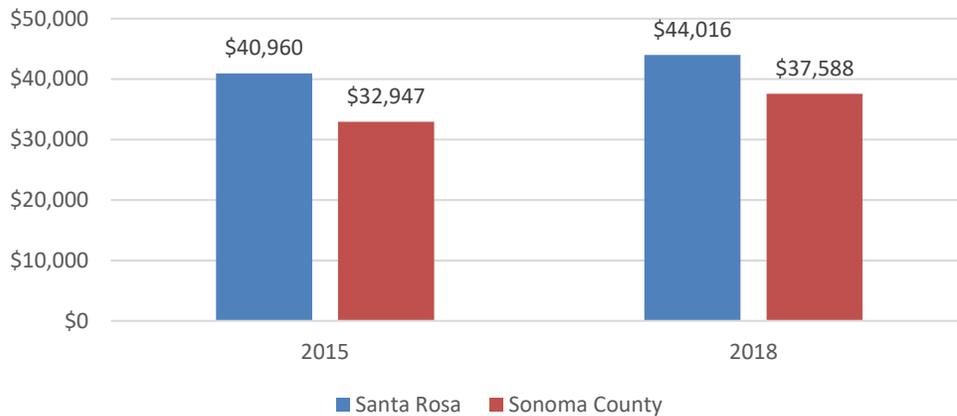
The Downtown area competes with the downtowns of nearby cities like Windsor, Petaluma, and Healdsburg. However, local area brokers report that parking scarcity and costs and perceived safety issues related to poor street lighting and homelessness limit Santa Rosa's downtown competitiveness with these other areas. Prior to the pandemic, Railroad Square's performance was stronger than Courthouse Square, as measured by average rents.

### *Retail Performance*

Santa Rosa's retail sales were growing prior to the onset of the COVID-19 pandemic; as a major regional retail destination, the city consistently attracts a net "surplus" of retail sales from outside the city. This is illustrated by the city and countywide taxable transactions data presented in **Figure 3-16**. A higher taxable sales value per household relative to the trade area can indicate that the city is capturing retail demand from households outside the city, whereas a lower taxable sales value per households can indicate that "leakage" of sales may be occurring to other jurisdictions. Over the 2015 to 2018 period, Santa Rosa consistently generated \$7,000 to \$8,000 more per household in taxable transactions than the County.

Increasing sales at motor vehicles and parts dealers and at building materials and garden supply stores drove Santa Rosa's taxable sales to grow by about eight percent between 2015 and 2018. Simultaneously, sales in general merchandise stores declined, which was likely related to the closure of two stores, including a Kmart lost in the Tubbs Fire. Taxable transactions data are only shown through 2018 due to changes in data reporting protocols by the California Department of Tax and Fee Administration (CDTFA) that began in 2019.

**Figure 3-16.** Taxable Transactions per Household in Santa Rosa and Sonoma County, 2015 and 2018 (in Nominal Dollars)



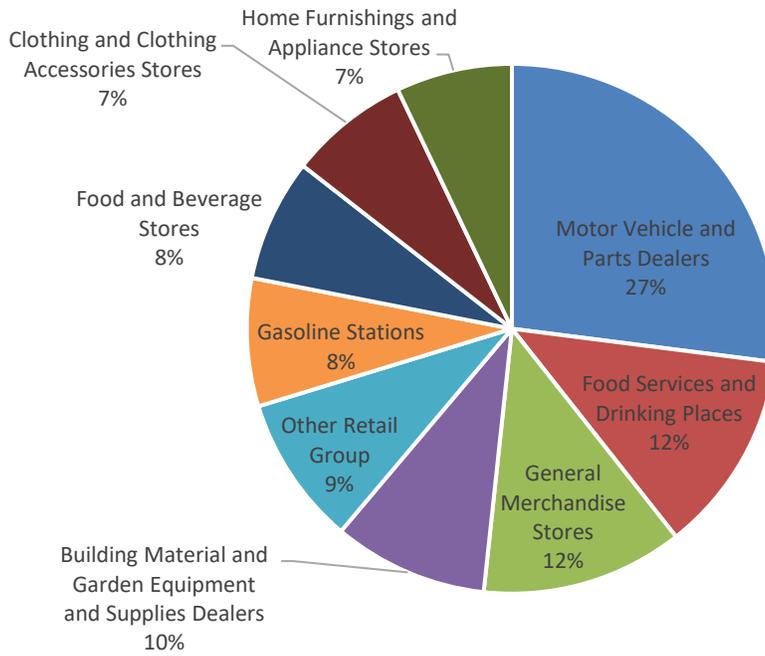
Sources: American Community Survey 5-Year Estimates; California Department of Tax and Fee Administration 2020; Strategic Economics, 2020.

Santa Rosa attracts especially high sales in retail categories that correspond to the city’s role as a major regional retail and automobile dealership destination. **Figure 3-17** and **Figure 3-18** indicate that Santa Rosa’s performance is especially strong in largely region-serving retail categories, including motor vehicle and parts dealers, home furnishings, clothing, and general merchandise categories, the latter of which includes stores like Costco, Target, and Walmart. However, **Figure 3-18** also shows that Santa Rosa has lower taxable sales per household generated in building materials stores and “other retail”<sup>9</sup> stores relative to the County, suggesting that there are potential opportunities to capture additional local and regional spending in these two store categories.

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<sup>9</sup> “Other retail” is a store category that includes pharmacies, health and personal care stores, sporting goods stores, bookstores, and gift stores, among others.

**Figure 3-17.** Retail and Food Services Taxable Sales, Santa Rosa, 2018



Sources: California Department of Tax and Fee Administration 2020; Strategic Economics, 2020.

**Figure 3-18.** Taxable Transactions per Household by Store Category, 2018



Sources: American Community Survey 5-Year Estimates; California Department of Tax and Fee Administration 2020; Strategic Economics, 2020.

## Development Pipeline

According to the real estate database CoStar, two retail projects of 20,000 square feet each have been proposed in Santa Rosa. The projects are respectively proposed near the Fountaingrove Area in northeastern Santa Rosa and in the southern part of the city near Highway 101. If built, these projects would absorb some of the retail demand discussed in the subsequent section. However, the COVID-19 pandemic is creating very challenging conditions for existing retail and the city is unlikely to see a significant amount of retail development in the short term.

## Future Retail Demand

Spending associated with new households in Santa Rosa will be the primary driver of future demand for additional retail space in Santa Rosa. The demand estimates shown in **Table 3-11** indicate that each new household in Santa Rosa will generate additional demand for approximately 27 square feet of space. As an illustrative example, if Santa Rosa were to capture all of the housing demand described in this report's residential demand estimate then new households would generate between approximately 950,000 and 1.1 million square feet of demand for additional retail space by 2050.

The retail demand estimates take into consideration the long-term trends in consumer shopping habits discussed in the "National Retail Trends" section and reflected in recent changes within the Santa Rosa retail landscape. Given that Americans are increasingly spending money at grocery stores and on experiential retail while increasingly purchasing hard and soft goods online, the demand estimates focus on the categories of retail that are best positioned to grow over time, including grocery stores and eating and drinking establishments. However, local brokers also indicated that store types which are potentially positioned to grow in Santa Rosa include stores with an outdoor focus, such as cycling and camping gear stores, and stores that serve the city's growing Latinx population. These store categories may be able to absorb existing retail space in Santa Rosa if existing tenants turn over.

Since it is unlikely that Santa Rosa will attract another regional retail center, future retail growth will primarily consist of local-serving shopping centers and storefronts in locations with growing residential populations. As a result, the format in which retail space is added will partly depend on where large new concentrations of households are added. Residential growth within or near Santa Rosa's Downtown area may drive increased demand for storefronts and retail in mixed-use formats, while residential growth elsewhere will likely be associated with growth of neighborhood shopping centers.

<b>Table 3-11: 2050 Retail Demand Per Household and Illustrative Scenarios Based on Projected Housing Demand</b>	
<b>Assumptions</b>	
Current Restaurant and Grocery Expenditures per Household	\$18,594
Restaurant and Grocery Sales per SF	\$700
New Retail Square Feet per New Household	26.6
<b>Retail Demand Projections</b>	
<b>Scenario 1 (Low Household Growth)</b>	
Number of New Households in Santa Rosa	35,604
Total New Household Spending	\$662,008,124
Total Demand for Retail SF by 2050	945,726
Average Annual Projected Retail Demand, 2021-2050	31,524
<b>Scenario 2 (High Household Growth)</b>	
Number of New Households in Santa Rosa	41,657
Total New Household Spending	\$774,563,158
Total Demand for Retail SF by 2050	1,106,519
Average Annual Projected Retail Demand, 2021-2050	36,884
<p>Note: These scenarios are illustrative growth projections assuming that Santa Rosa is able to capture projected shares of South and Central Sonoma County's housing demand growth, as discussed in the "Residential Market Analysis" section.</p> <p>Sources: CDTFA, 2018; HDL, 2020; Strategic Economics, 2020.</p>	

## 3.7 OFFICE/R&D MARKET

This section provides an overview of the market for office and research and development (R&D) space in Santa Rosa, compared to Sonoma County (the market area) as a whole. This analysis is based on market and development activity data provided by the CoStar Group and the City of Santa Rosa, as well as interviews with local real estate brokers.

### Impacts of COVID-19 on the Office/R&D Real Estate Market

There is uncertainty about the longer-term effects of the COVID-19 pandemic on the regional and local office/R&D real estate market. Prior to the pandemic, office development was concentrated in more urban, transit-oriented locations near major employment centers (primarily in San Francisco and Silicon Valley). In the short term, COVID-19 has led to a shift away from denser offices in urban locations, and an increasing trend towards working-from-home. Some real estate professionals forecast that COVID-19 will shift user preferences towards more suburban office locations, given that remote work will continue to prevail in the longer-term and eliminate the need or desire for convenient transit access and dense, mixed-use urban locations. Office tenants

may prefer more space to create layouts with lower worker densities that comply with social distancing requirements. This trend towards greater suburbanization could favor certain locations in Santa Rosa that can accommodate suburban office campus settings (Cushman and Wakefield 2020). Other real estate industry experts believe that eventual relaxing of social distancing measures will again drive demand for convenient locations near transit that offer a wide array of amenities.

Businesses in some sectors of the economy that drive office demand in Santa Rosa – such as health care and medical equipment manufacturing – may continue to perform well during the economic downturn caused by COVID-19. As described in Section 3.4, these are large and growing industries in Santa Rosa, so this trend could have a positive effect on Santa Rosa’s office market (JLL 2020).

At the same time, it is possible that COVID-19 could negatively impact Santa Rosa’s office market. As explained in the section below, Santa Rosa is a smaller, tertiary office market within the Bay Area, which may make it more susceptible to declining market conditions. Some real estate professionals also predict that office tenants will significantly reduce the amount of space leased or stop leasing space entirely.

## Office/R&D Supply and Performance

Santa Rosa is Sonoma County’s largest and primary office/R&D hub. As described in Section 3.4, Santa Rosa is the economic driver of the county and accounts for nearly 40 percent of the county’s total jobs – including 41 percent of jobs in office-based industries,<sup>10</sup> 75 percent of public administration jobs, and 52 percent of health care jobs. Within Santa Rosa, the public administration and health care industries are also major drivers of demand for office space. Santa Rosa accounts for approximately 8.8 million square feet of office and R&D space, or 46 percent of Sonoma County’s inventory. Petaluma is the second largest office submarket in Sonoma County.

Within the nine-county Bay Area region, however, Santa Rosa is a tertiary office market. The city’s office/R&D inventory is relatively small compared to other large cities in the Bay Area, and Santa Rosa does not attract the same magnitude of technology-driven office demand and growth as other Bay Area counties such as San Francisco and Santa Clara. While the Marin County and Southern Sonoma County office markets, including Petaluma, still have strong connections to San Francisco, Santa Rosa is considered a relatively independent office market, with many local serving businesses. This is in large part due to Santa Rosa’s distance and lack of accessibility to San Francisco. In particular, Highway 101 narrows significantly north of Marin County, making it harder for commuters to reach Santa Rosa. In addition, the portion of Highway 101 between Petaluma and Santa Rosa is often very congested, making the extra time and distance a barrier for some office tenants.

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<sup>10</sup> Described in Section 3.4, “office-based industries” consist of those most likely to be associated with demand for office space; the industry sectors include professional and technical services, finance and insurance, information, real estate, and other management.

The majority of Santa Rosa's office/R&D supply consists of suburban-style, low-density commercial business parks made up of multi-tenant buildings. These business parks are located in the Southwest, Northwest, and Northeast sectors of the city, mostly along Highway 101 (North-South) or State Route 12 (East-West). Santa Rosa's commercial business parks have a flexible mix of office, R&D, and industrial space and tenants – for example, Northpoint Corporate Center, one the city's largest business parks (2 million square feet), hosts high technology manufacturing (Viavi Solutions), food manufacturing (Amy's Kitchen), medical offices (Kaiser), and distribution companies (Sonoma Beverage Company). Downtown Santa Rosa is another important office submarket within the city, with about 1.5 million square feet of space.

The main types of office users in Santa Rosa include finance, insurance, and real estate (FIRE) businesses and other professional services (e.g. engineering, consulting) that typically require small increments of office space, ranging from 2,500 to 10,000 square feet, and that primarily serve local businesses, residents, and institutions. In addition, medical and government tenants or owner-users constitute major drivers of office demand in Santa Rosa, given the city's status as the Sonoma County seat and position as a central hub for medical care in the surrounding region. Finally, some manufacturing companies also require office and R&D space.

The office and R&D market in Santa Rosa is quite stable; while vacancy has dropped significantly, rents remain relatively low and have not increased dramatically in the last decade. This stands in contrast to other cities in the Bay Area, where office and R&D rents have significantly increased in the last decade.

Office rents in Santa Rosa average \$1.76 per square foot for all classes and \$2.00 per square foot for Class A space (on a full-service basis), as shown in **Table 3-12** and on **Figure 3-19**. These rental rates are slightly lower than Sonoma County overall. As a whole, there is a very limited supply of Class A space countywide (less than 1 million square feet in Santa Rosa, and about 1.5 million square feet in Sonoma County). Santa Rosa rents are typically lower than those of Petaluma and Marin County.

Santa Rosa's office vacancy rate has declined steadily for the last several years; vacancies fell below five percent in 2018 from approximately 10 percent in 2010, and rose only slightly to six percent in the first half of 2020. The vacancy rate for Class A office space is typically higher than that of all classes of space in Santa Rosa and Sonoma County, but this represents a very small increment of space compared to the total office inventory.

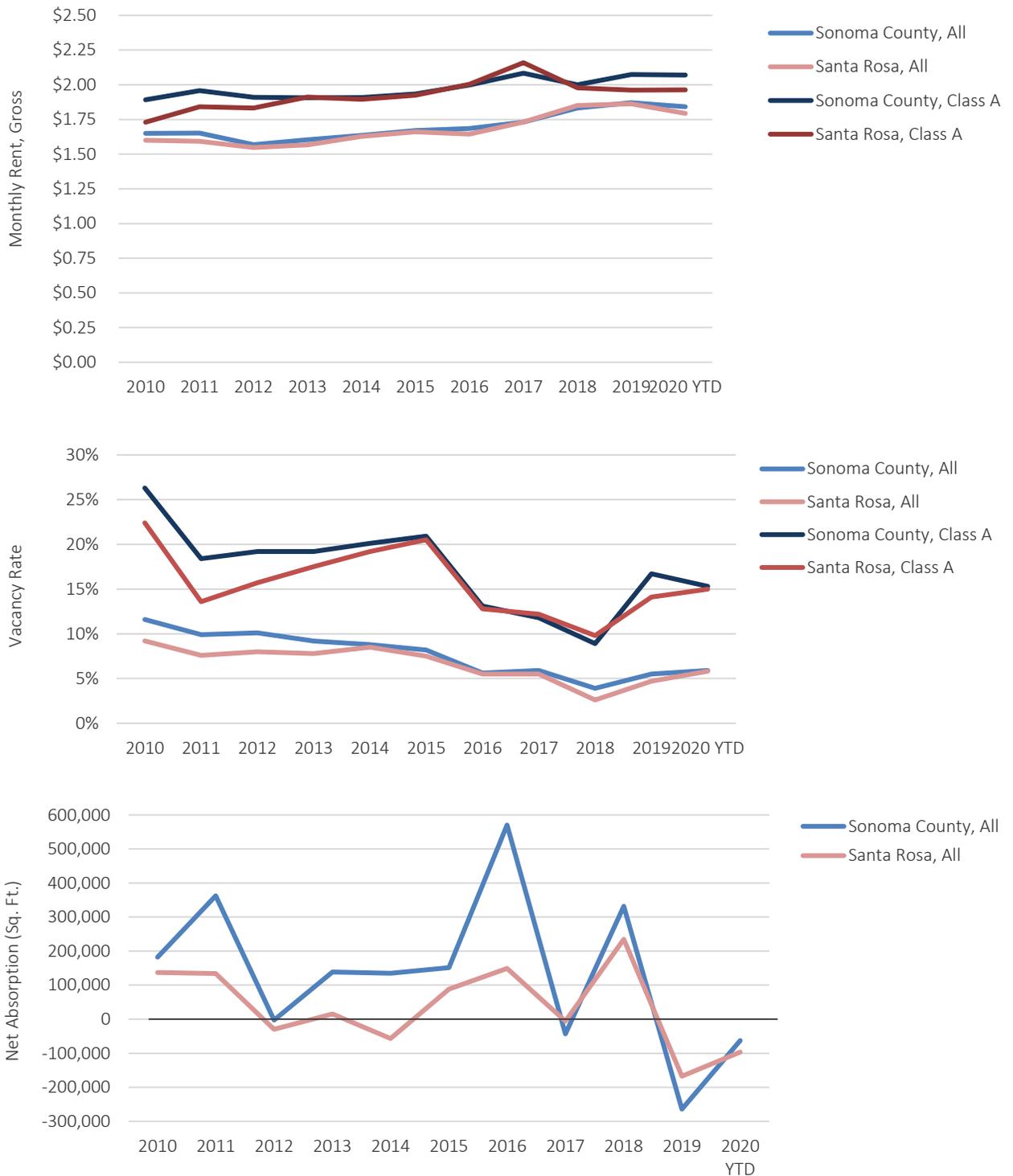
Annual net absorption of office space (occupied space less vacated space) has remained mostly positive over the last decade in Sonoma County, while net absorption was slightly more volatile in Santa Rosa. Net absorption averaged approximately 150,000 to 200,000 square feet annually in Sonoma County and 40,000 square feet in Santa Rosa. Furthermore, both the city and county saw a drop in net absorption starting in 2018 – this may be due to the 2017 Tubbs Fire, which particularly disrupted commercial space in the Fountaingrove area.

Moving forward, the Marin-Sonoma Narrows project, which has been partly completed with segments still in various stages of construction and planning, will widen Highway 101 to alleviate congestion and improve travel time to Santa Rosa from the central Bay Area (Caltrans 2020). This project is likely to enhance accessibility to Santa Rosa and improve its competitiveness for future office development.

Furthermore, local brokers and market studies conducted for the City of Santa Rosa reported that the lack of housing in the city may help explain the lack of a stronger office/R&D market, especially in the Downtown area. As the city continues to build more housing, Santa Rosa's long-term office/R&D market could begin to strengthen (Dyett & Bhatia 2019).

<b>Table 3-12: Office/R&amp;D Inventory in Santa Rosa and Sonoma County, 2020</b>		
	<b>City of Santa Rosa</b>	<b>Sonoma County</b>
<b>Office, All Classes</b>		
Inventory (Buildings)	809	1,793
Inventory (Sq. Ft.)	8,354,878	16,761,776
Monthly Rent Per Sq. Ft. (Gross, Full Service)	\$1.76	\$1.84
Vacancy	6%	6%
<b>Office, Class A</b>		
Inventory (Buildings)	14	22
Inventory (Sq. Ft.)	894,672	1,420,687
Monthly Rent Per Sq. Ft. (Gross, Full Service)	\$1.96	\$2.07
Vacancy	15%	15%
<b>R&amp;D, All Classes</b>		
Inventory (Buildings)	16	66
Inventory (Sq. Ft.)	539,836	2,404,987
Monthly Rent Per Sq. Ft. (Gross, Full Service)	\$1.68	\$1.67
Vacancy	3%	11%
Source: CoStar, 2020; Strategic Economics, 2020.		

**Figure 3-19.** Office Rents (Top), Vacancy Rate (Middle) and Net Absorption (Bottom), 2010 to 2020



Source: CoStar, 2020; Strategic Economics, 2020.

## Office/R&D Development Activity

As shown in **Figure 3-20** and **Table 3-13**, 410,000 square feet of office/R&D space has been built in Sonoma County since 2010, with an additional 270,000 square feet in the pipeline.

New office development in Sonoma County has been driven primarily by government and medical uses. New medical office development has played an especially significant role, with most larger projects developed or occupied by medical users (e.g. 75,000 square feet in unincorporated Sonoma County near Fulton for a new Sutter Health building; 50,000 square feet in Petaluma for a health center; 40,000 square feet in the Airport Industrial Area for a Veterans Affairs clinic; 18,000 square feet in Sonoma for a community health center).

The majority of development activity has been concentrated in the Airport Industrial Area Specific Plan in unincorporated Sonoma County (243,000 square feet recently completed and 99,000 square feet in the pipeline). This area has been attractive for several reasons. First, the area has been master planned as an employment center, and has significant vacant or underutilized land that is already zoned for commercial development (between 150 and 200 acres, according to the Specific Plan Update process currently underway).<sup>11</sup> Second, the area has convenient access to Highway 101 – the county’s major transportation corridor – as well as Charles Schultz-Sonoma County Airport and the Sonoma County Airport SMART station. Local brokers also report that the area’s location midway between Santa Rosa and the Healdsburg area is desirable for higher-income workers and executives seeking a shorter commute.

Although Santa Rosa accounts for a large share of the county’s existing office inventory, it has captured very little new development since 2010 (only 2,000 square feet). Although not included in Table 3-13, the only projects built in Santa Rosa during the last economic cycle are one government building completed in 2008 (35,000 square feet) and one multi-tenant office building in the Fountaingrove area completed in 2009 (64,000 square feet), which is currently occupied by financial services tenants. There are no office projects under construction or proposed in Santa Rosa, with the exception of a few mixed-use projects in Downtown Santa Rosa that may include some ground floor commercial space.

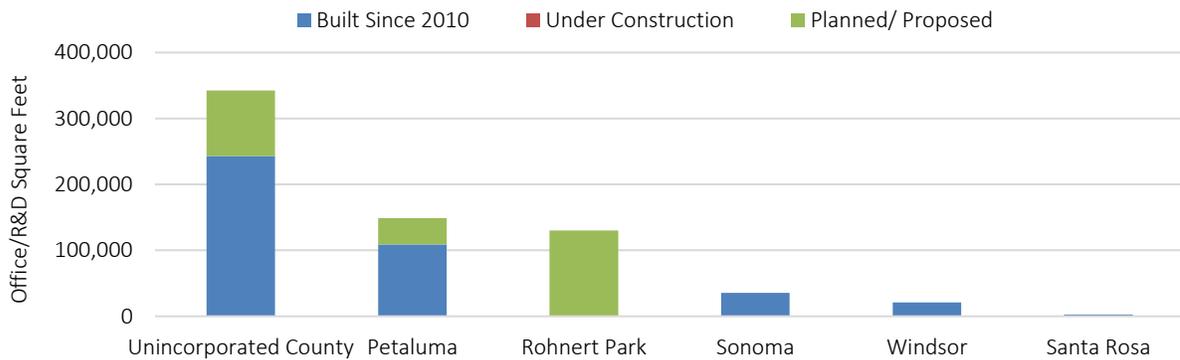
Based on previously described historic trends and input by local brokers, several factors appear to contribute to limited office/R&D development activity in Santa Rosa. Achievable rents are generally low and slow-growing, creating financial feasibility challenges for new development. Santa Rosa also has limited development opportunity sites located along the Highway 101 corridor, suffers from traffic congestion along Highway 101, and job growth in many office-based industries has grown slowly or even declined.

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<sup>11</sup> The Specific Plan area, which covers about 600 acres, was originally master planned in the 1980s, with amendments in 2009. Since its designation as an Employment Investment Area, the Specific Plan Update currently underway was funded by a One Bay Area Grant from ABAG. See: County of Sonoma, “Airport Area Specific Plan,” available at: <https://sonomacounty.ca.gov/PRMD/Long-Range-Plans/Airport-Area-Specific-Plan-Update/>

While office development has been anticipated in response to the introduction of rail service in Sonoma County, the SMART station areas have not yet seen new office projects completed. There is currently one mixed-use project planned near the Rohnert Park SMART station; the “Station Avenue” proposal is a 32-acre mixed use project that includes 130,000 square feet of office, in addition to 465 housing units, 120,000 square feet of retail, and a 160-room hotel (Cushman and Wakefield 2020). However, the viability of this project in the short-term remains uncertain.

**Figure 3-20.** Recently Completed, Under Construction, and Planned/Proposed Office and R&D Development in Sonoma County Since 2010



Source: CoStar, 2020; Strategic Economics; 2020.

Table 3-13: Recently Completed, Under Construction, and Planned/Proposed Office and R&D Development in Sonoma County, 2020				
Address	Jurisdiction	Project Name / Tenant / User (If Available)	Year Built	Square Feet
<b>Built Since 2010</b>				
1179 N McDowell Blvd	Petaluma	Petaluma Health Center	2011	53,000
1385 N McDowell Blvd	Petaluma	Redwood Business Center	2015	56,065
120 College Ave	Santa Rosa	Construction-related companies	2012	2,503
3841 Brickway Blvd	Airport Industrial Area*	Veterans Affairs Clinic	2011	39,540
400 Aviation Blvd	Airport Industrial Area*	American Ag Credit HQ	2016	128,000
34 Mark West Springs Rd	Unincorporated County	Sutter Health	2014	75,649
21200 8th St E	Sonoma	Unknown	2011	8,591
19270 Highway 12	Sonoma	Sonoma Valley Community Health Center	2012	18,691
921 Broadway	Sonoma	Unknown	2015	1,750
889 Hayes St	Sonoma	Unknown	2015	2,096

<b>Table 3-13: Recently Completed, Under Construction, and Planned/Proposed Office and R&amp;D Development in Sonoma County, 2020</b>				
<b>Address</b>	<b>Jurisdiction</b>	<b>Project Name / Tenant / User (If Available)</b>	<b>Year Built</b>	<b>Square Feet</b>
18590-18594 Sonoma Hwy	Sonoma	Professional office (mixed use building)	2017	4,315
8260 Old Redwood Hwy	Windsor	Dental office	2011	6,993
102-128 Johnson St	Windsor	Ground floor, winemaking supply store	2016	14,000
<b>Subtotal</b>				<b>411,193</b>
<b>Planned / Proposed</b>				
1400 Cader Ln	Petaluma	Unknown		40,000
6430 Station Ave	Rohnert Park	Station Avenue (mixed use project)		130,000
3839 Brickway Blvd	Airport Industrial Area*	Built-to-suit opportunity (ready to build)		44,800
499 Aviation Blvd	Airport Industrial Area*	Built-to-suit opportunity (ready to build)		34,369
216 Concourse Blvd	Airport Industrial Area*	Unknown		20,000
<b>Subtotal</b>				<b>269,169</b>
*The Airport Specific Plan Area is located in unincorporated Sonoma County. Source: CoStar, 2020; Strategic Economics; 2020.				

## Office/R&D Demand Projections

**Table 3-14** summarizes two scenarios of projected demand for office and R&D space in Santa Rosa by 2050. The projections are based on the average annual net absorption of office and R&D space in Sonoma County, as reported by the CoStar Group.<sup>12</sup> This net absorption is presented as an annual average from 2007 to 2020, to capture trends during both the Great Recession and the post-recovery economic expansion. Net absorption is an accurate measure of change in real estate demand over time because it accounts for both new development and leasing activity.

<sup>12</sup> Based on the Plan Bay Area 2040 projections published in November 2018, the Association of Bay Area Governments (ABAG) anticipates employment losses in industries traditionally associated with office space in Santa Rosa and Sonoma County, and projects significant employment gains in health, educational, and recreational services. The absorption-based analysis better reflects long-term trends in positive absorption due to the unique mix of industries that drives demand for office and R&D space in Sonoma County.

Based on this methodology, projected office and R&D demand in Sonoma County is approximately 150,000 square feet on an average annual basis, which would result in total demand for 4.5 million square feet from 2020 to 2050. Under this assumption, the county’s total office/R&D inventory would reach 23.5 million square feet by 2050.

Table 3-14 also summarizes office demand projections for the City of Santa Rosa. The low and high scenarios assume that Santa Rosa captures different shares of countywide demand:

- The “Low” capture rate represents Santa Rosa’s historical share of Sonoma County’s net absorption from 2007 to 2020. This assumes Santa Rosa continues to capture a similar rate of growth in office and R&D demand as it has in the last decade. This leads to an average annual office/R&D demand of 38,000 square feet, or 1.1 million square feet from 2020 to 2050 in Santa Rosa. This low scenario assumes that Santa Rosa does not become more competitive for office and R&D growth.
- The “High” capture rate represents Santa Rosa’s current share of existing office and R&D inventory in the county. As explained previously, Santa Rosa is the primary office and R&D hub in the county, so this scenario assumes that Santa Rosa becomes more competitive for office/R&D demand and begins capturing a higher share of future demand. This scenario assumes that suburban locations such as Santa Rosa would become more attractive to office/R&D development due to changing tenant preferences, including changes in demand related to the COVID-19 pandemic (such as preferences for suburban locations or larger amounts of space per employee).

As explained in the previous section, Santa Rosa is a tertiary market location within the Bay Area region and generally captures employment growth from within Sonoma County, rather than drawing in firms from the core Bay Area counties. Demand will likely be driven by tenants in health care, government, FIRE, and other small professional service companies.

In both the low and high scenarios, it is possible that some of the estimated demand for Santa Rosa would be captured by the Airport Industrial Area in unincorporated Sonoma County, which has seen significant office, R&D, and industrial development activity in the last decade, and still has various projects in the pipeline.

	Santa Rosa Capture Rate	Average Annual Demand (Square Feet)	Total Demand 2020-2050 (Square Feet)
Sonoma County		151,000	4,539,000
Santa Rosa Low Estimate (a)	25%	38,000	1,131,000
Santa Rosa High Estimate (b)	46%	70,000	2,106,000

(a) Low estimate is based on Santa Rosa’s share of Sonoma County’s average annual net absorption of office and R&D space from 2007 to 2020.  
 (b) High estimate is based on Santa Rosa’s existing share of Sonoma County’s office and R&D inventory.  
 Source: CoStar, 2020; Strategic Economics, 2020.

## 3.8 INDUSTRIAL MARKET

This section provides an overview of the market for industrial and flex space in Santa Rosa, compared to Sonoma County (the market area) as a whole. This analysis is based on market and development activity data provided by the CoStar Group and the City of Santa Rosa, as well as interviews with local brokers.

### Impact of COVID-19 on the Industrial/Flex Real Estate Market Trends

Prior to COVID-19, the industrial real estate market in the Bay Area was already performing well, driven in part by increased demand for tech flex/manufacturing space (related to the region's growing tech sector) and warehouse/distribution space (related to the e-commerce boom) in a space-constrained region. Real estate professionals anticipate that the COVID-19 pandemic will increase demand for services provided by e-commerce and delivery companies, leading to continued strong demand for warehouse and distribution space in particular. Real estate industry experts also anticipate that medical equipment and other biotechnology manufacturing will continue to grow. The long-term impacts on other types of industrial tenants – such as food manufacturing – is more uncertain (JLL 2020). As described in more detail below, these types of industrial spaces, though found in Santa Rosa, are not especially concentrated in the city.

### Industrial/Flex Supply and Performance

Santa Rosa is one of several industrial hubs in Sonoma County. As detailed in section 3.4, jobs in industrial-based sectors in Sonoma County – such as manufacturing, transportation and warehousing, and wholesale trade – are not generally concentrated in Santa Rosa.<sup>13</sup> This is reflected in the city's industrial and flex inventory as well: Santa Rosa includes 7.7 million square feet of industrial and flex space, or only 25 percent of Sonoma County's total inventory. Other major industrial submarkets include Petaluma and the northern Highway 101 corridor, including primarily the Airport Industrial Area.

As shown in **Table 3-15**, Santa Rosa has a mix of warehouse and distribution space (57 percent), manufacturing space (11 percent), and flex space (11 percent), and "Other" industrial property types including food processing, refrigeration/cold storage, and truck terminals (14 percent).<sup>14</sup> Compared to Sonoma County overall, Santa Rosa has a relatively higher share of flex space (35 percent of countywide inventory), which may reflect Santa Rosa's position as the main office and R&D hub in the county.

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<sup>13</sup> Santa Rosa holds 19 percent of County manufacturing jobs, 22 percent of transportation and warehousing jobs, and 22 percent of wholesale trade jobs, according to 2017 U.S. Census LEHD data.

<sup>14</sup> CoStar classifies industrial properties by different secondary types. The "Other" category, created by Strategic Economics, includes the following secondary types: Food Processing; Refrigeration/ Cold Storage; Service; Industrial Showroom; Industrial Telecom Hotel/ Data Hosting; Truck Terminal; or no Secondary Type available.

Santa Rosa’s industrial supply consists mostly of commercial business parks. Some parks, such as Piner and Coffey Industrial Parks, include an array of assorted industrial users and smaller tenants such as automobile sale and repair, storage, suppliers, and distribution. Other commercial parks, such as the Northpoint Corporate Center, include a wider mix of office, R&D, and industrial users.

In both Santa Rosa and Sonoma County, food and beverage manufacturing and distribution are the primary drivers of demand for industrial space, given the region’s focus on specialty foods, wines, and beverages. Local brokers also reported an increase in demand from the cannabis industry since its legalization in California, starting in January 2018. These users, which may only locate in certain designated zones, are generally able to pay higher rents than typical industrial users.

However, in both Santa Rosa and Sonoma County, e-commerce has not been driving up demand for warehouse/distribution space as sharply as in other markets in the Bay Area or the Northern California mega-region, such as along Highway I-80 in Solano County or I-5 and I-580 in San Joaquin County. E-commerce users generally seek an abundance of inexpensive land, proximity to low-cost labor, and accessibility to a large pool of consumers. However, in Sonoma County, land is generally expensive and access to major inter-regional highways is limited.

Across all industrial types, average rents hovered around \$1.25 per square foot in Santa Rosa in early 2020, which is slightly higher than average industrial rents in Sonoma County (\$1.15 per square foot) as shown in **Table 3-16** and **Figure 3-21**. Industrial rents in the city and the county have grown at a very similar pace over the last decade, and only recently have Santa Rosa rents risen slightly higher than Sonoma County (with the exception of an abnormal spike in rents in 2018, likely influenced by a single property).

Different types of industrial space have rents ranging from \$1.10 to \$1.60 per square foot, with warehouse and distribution generally leased at the lowest rates, and flex and “Other” (which includes food processing and refrigeration/storage) at the highest rents.<sup>15</sup> Local brokers reported that the cannabis industry has been driving up industrial rents in the county, with tenants willing to pay up to \$2.00 per square foot and potentially outbidding other prospective users.

Industrial vacancy rates in both Santa Rosa and Sonoma County have declined significantly over the last decade, from around nine to 10 percent coming out of the Great Recession to four percent in early 2020. Since 2018, Santa Rosa’s industrial vacancy rate has dipped slightly below the county’s vacancy rate. As a whole, industrial vacancy rates across the Bay Area have experienced steep declines in the last decade, given growing demand and limited supply.

Net absorption of industrial space has largely been positive in both Santa Rosa and Sonoma County since 2010. Net absorption has remained relatively consistent in Sonoma County, at around 200,000 to 300,000 square feet annually. In contrast, net absorption has fluctuated significantly in Santa Rosa, ranging from net negative values to up to 150,000 square feet per year. Based on net absorption trends, locations including the Airport Industrial Area, Petaluma,

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<sup>15</sup> “Other” includes: Food Processing; Refrigeration/ Cold Storage; Service; Industrial Showroom; Industrial Telecom Hotel/ Data Hosting; Truck Terminal; or no Secondary Type available.

and other unincorporated areas near the City of Sonoma are attracting more leasing activity than Santa Rosa.

**Table 3-15: Industrial and Flex Inventory in Santa Rosa and Sonoma County, 2020**

	City of Santa Rosa		Sonoma County		Santa Rosa as a Share of Sonoma County
	Square Feet	Percent of Total	Square Feet	Percent of Total	
Warehouse & Distribution	4,392,333	57%	20,652,840	66%	21%
Manufacturing	821,358	11%	4,167,614	13%	20%
Flex	1,426,512	19%	4,203,074	13%	34%
Other	1,044,795	14%	2,208,387	7%	47%
<b>Total Industrial/ Flex</b>	<b>7,684,998</b>	<b>100%</b>	<b>31,231,915</b>	<b>100%</b>	<b>25%</b>

Note: "Other" includes the following CoStar secondary industrial property types: food processing; refrigeration/ cold storage; service; industrial showroom; industrial telecom hotel/ data hosting; truck terminal; or missing data.  
Source: CoStar, 2020; Strategic Economics, 2020.

**Table 3-16: Industrial and Flex Rental and Vacancy Rates, City of Santa Rosa and Sonoma County, 2020**

	City of Santa Rosa	Sonoma County
<b>Warehouse &amp; Distribution</b>		
Monthly Rent Per Sq. Ft.	\$1.15	\$1.10
Vacancy Rate	4.0%	5.0%
<b>Manufacturing</b>		
Monthly Rent Per Sq. Ft.	\$1.12	\$1.15
Vacancy Rate	1.4%	2.2%
<b>Flex</b>		
Monthly Rent Per Sq. Ft.	\$1.20	\$1.28
Vacancy Rate	3.7%	5.0%
<b>Other</b>		
Monthly Rent Per Sq. Ft.	\$1.60	\$1.56
Vacancy Rate	6.2%	3.7%
<b>All Industrial</b>		
Monthly Rent Per Sq. Ft.	\$1.25	\$1.15
Vacancy Rate	4.2%	4.3%

Note: "Other" includes the following CoStar secondary industrial property types: food processing; refrigeration/ cold storage; service; industrial showroom; industrial telecom hotel data hosting; truck terminal; or missing data.  
Source: CoStar, 2020; Strategic Economics, 2020.

**Figure 3-21.** Industrial Rents (Top), Vacancy Rate (Middle), and Net Absorption (Bottom), 2010-2020



Source: CoStar, 2020; Strategic Economics, 2020.

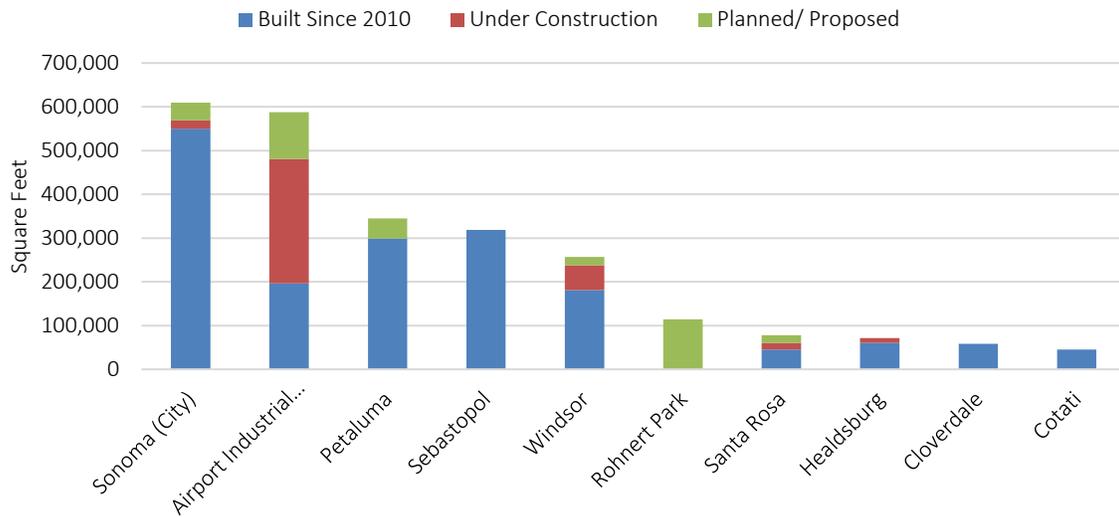
## Industrial/Flex Development Activity

Sonoma County has had a relatively large volume of industrial and flex space development activity in recent years. Since 2010, the county added more than 1.7 million square feet of new industrial space, with another 390,00 square feet currently under construction. Projects that are in planning and proposal stages would add another 340,000 square feet to the county's industrial supply.

As shown in **Figure 3-22** and **Table 3-17**, Industrial development activity has been distributed across several jurisdictions in Sonoma County. As with the office market, the Airport Industrial Area has attracted a large share of the county's development activity, including several warehouse buildings ranging from 40,000 to 140,000 square feet. The Airport Industrial Area's direct accessibility to Highway 101, proximity to the airport, and its status as a master planned area zoned for office and industrial uses have made the area a desirable location for development. The City of Sonoma and its surrounding unincorporated areas have also experienced industrial construction activity since 2010. Projects in this area include Victory Station – one of a few larger warehouse buildings (250,000 square feet) built on a speculative basis in the county since 2010 – as well as a few other buildings in the 100,000 to 150,000 square foot range. Petaluma and Sebastopol also have seen new development activity.

Most of the newly built projects in Sonoma County are geared towards large food and beverage companies seeking production, distribution, or warehouse space. However, Sonoma County has generally not attracted significant e-commerce related warehouse and distribution uses relative to other counties, as described in more detail in the previous section.

Santa Rosa has captured a relatively small share of the county's development activity overall, with only one completed project serving the Sonoma County government fleet operations (40,000 square feet). One multi-tenant warehouse project is currently under construction (about 15,000 square feet) on Dutton Avenue north of Bellevue, at the city's southern border, and another proposed project is proposed for development in the same area.

**Figure 3-22. Industrial and Flex Development Activity in Sonoma County, 2010 to 2020**

\*The Airport Industrial Area is located in unincorporated Sonoma County.

Source: CoStar, 2020; Strategic Economics, 2020.

**Table 3-17: Industrial and Flex Development Activity by Jurisdiction in Sonoma County, 2010 to 2020**

	Built Since 2010 (Sq. Ft.)	Under Construction (Sq. Ft.)	Planned/Proposed (Sq. Ft.)	Total (Sq. Ft.)
Sonoma (City)	549,904	20,000	40,000	609,904
Airport Industrial Area*	196,200	284,864	106,566	587,630
Petaluma	299,354	0	45,517	344,871
Sebastopol	318,302	0	0	318,302
Windsor	181,352	56,754	18,644	256,750
Rohnert Park	0	0	114,031	114,031
Santa Rosa	45,020	15,222	17,695	77,937
Healdsburg	60,352	11,174	0	71,526
Cloverdale	58,000	0	0	58,000
Cotati	45,000	0	0	45,000
<b>Total</b>	<b>1,753,484</b>	<b>388,014</b>	<b>342,453</b>	<b>2,483,951</b>
*The Airport Industrial Area is located in unincorporated Sonoma County. Source: CoStar, 2020; Strategic Economics, 2020.				

## Industrial/Flex Demand Projections

**Table 3-18** summarizes two scenarios of estimated growth in demand for industrial and flex space in Santa Rosa by 2050. The projections are based on the average annual net absorption of industrial and flex space in Sonoma County, as reported by the CoStar Group.<sup>16</sup> Net absorption is one of the most accurate metrics of change in real estate demand over time, as it accounts for both new development and leasing activity. Table 3-18 shows historic net absorption as an annual average from 2007 to 2020, to capture trends during the Great Recession and the post-recovery economic growth of the last decade.

Based on this methodology, estimated average annual growth in demand for industrial and flex space in Sonoma County is about 212,000 square feet, which would result in 6.4 million square feet of total additional demand from 2020 to 2050. Under this assumption, the county's total industrial/flex inventory would reach about 38.2 million square feet by 2050.

Table 3-18 also summarizes demand estimates for the City of Santa Rosa. The low and high scenarios assume that Santa Rosa is able to capture different shares of countywide demand growth:

- The “Low” capture rate represents Santa Rosa’s historical share of Sonoma County’s net absorption of industrial and flex space from 2007 to 2020. This approach assumes that Santa Rosa continues to capture a similar rate of growth as it has in the last decade. This would result in an average annual growth in demand of 19,000 square feet, or 571,000 square feet total from 2020 to 2050. This lower scenario assumes that Santa Rosa does not necessarily become more competitive for industrial growth, but continues to experience stable demand from food and wine businesses in need of production and distribution space.
- The “High” capture rate represents Santa Rosa’s current share of all existing industrial and flex inventory in the county. This scenario assumes that Santa Rosa becomes more competitive for industrial uses over time, for example with increased demand from the cannabis and e-commerce industries, or growth in advanced technology and manufacturing demand.

In both the low and high scenarios, it is possible that some of Santa Rosa’s projected demand could be captured by the Airport Industrial Area, which has seen significant office and industrial development activity in the last decade and which currently has various projects planned or proposed for future development.

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<sup>16</sup> Based on the Plan Bay Area 2040 projections published in November 2018, ABAG anticipates employment losses in industries traditionally associated with industrial space in Santa Rosa and Sonoma County. However, the absorption-based analysis better reflects long-term trends in positive absorption due to unanticipated growth in these industrial-based sectors and the unique mix of industries that drives demand for industrial space in Sonoma County.

**Table 3-18: Projected Industrial and Flex Demand in Santa Rosa, 2020 to 2050**

	Santa Rosa Capture Rate	Average Annual Demand (Square Feet)	Total Demand 2020-2050 (Square Feet)
Sonoma County		212,000	6,370,000
Santa Rosa Low Estimate (a)	9%	19,000	571,000
Santa Rosa High Estimate (b)	24%	51,000	1,536,000
(a) Low estimate is based on Santa Rosa's share of Sonoma County's average annual net absorption for industrial and flex from 2007 to 2020. (b) High estimate is based on Santa Rosa's existing share of Sonoma County's industrial and flex inventory. Source: CoStar, 2020; Strategic Economics, 2020.			

## 3.9 HOTEL MARKET

This section describes hotel market conditions in Santa Rosa and Sonoma County, the competitive hotel market area. The analysis utilizes data from the Sonoma County Economic Development Board and Smith Travel Research (STR), transient occupancy tax revenue data for the City of Santa Rosa, and reports and interviews with knowledgeable local experts in the tourism industry. This section concludes with a review of planned and proposed hotel development projects and estimates future demand for hotel rooms in Santa Rosa.

The COVID-19 pandemic is currently resulting in severe negative impacts on hotel performance. However, the General Plan horizon from 2020 to 2050 will include a recovery from the immediate impacts of the pandemic, as well as other periods of economic growth and decline. In the immediate term, COVID-19 can be anticipated to sharply reduce demand for hotel stays while transmission of the virus is widespread. The impacts of a recession may also reduce travel demand several years, as households and businesses limit their travel spending amid economic recovery and lingering concerns over transmission of the coronavirus. However, long term demand for hotels will eventually rebound and continue to grow in the coming decades.

### Competitive Supply

Santa Rosa is situated within the Sonoma County hotel market area. Sonoma County is a desirable leisure travel tourist destination due to its location within wine country, its craft beverage industry and culinary offerings, and outdoor recreational opportunities. The presence of the Sonoma County Airport provides visitors arriving from outside of the Bay Area and from international destinations with convenient access to Sonoma County. Sonoma County also draws many visitors from other parts of the Bay Area, and in recent years the area's hotels served as accommodations for first responders, construction workers, and residents who were displaced from their homes as a result of the Tubbs Fire. The county's hotels span the full spectrum of hotel classes, including motels and bed and breakfasts throughout the county, as well as luxury properties in destinations like Healdsburg.

While leisure travelers generate demand for hotel stays in the Santa Rosa submarket, the city also uniquely serves a significant share of demand generated by business travelers. Business travel is associated with the presence of larger companies in Santa Rosa. The diversified leisure and business travel market segments in Santa Rosa translate into both weekend leisure and weekday business-related hotel stays. As a result, the city's hotels have higher occupancy rates than other hotels in the Sonoma County market, according to local tourism industry professionals. The city's hotels benefit from Santa Rosa's proximity to the Sonoma County Airport, proximity to major wineries in the region, and from the appeal of Downtown Santa Rosa.

Santa Rosa's accommodations inventory consists of 27 hotels, motels, and bed and breakfasts, with a total room count 2,261 rooms. The city's hotel inventory accounts for 32 percent of the 6,992 hotel rooms in Sonoma County. The majority of Santa Rosa's hotel inventory is older, with 60 percent of hotel rooms being constructed before the year 2000, as shown in **Table 3-19**. This is on par with Sonoma County, in which 58 percent of hotels were constructed prior to the year 2000. Santa Rosa's hotel room inventory primarily consists of mid-scale and upper-midscale hotels that appeal to both business and leisure travelers.

**Table 3-19: Sonoma County Hotel Room Inventory by Opening Date, 1980-2018**

Year Opened	Santa Rosa			Sonoma County		
	Number of Hotels	Number of Rooms	Share of Rooms	Number of Hotels	Number of Rooms	Share of Rooms
Before 1970	11	575	25%	32	1,560	22%
1970-1979	2	157	7%	6	402	6%
1980-1989	10	517	23%	26	1,665	24%
1990-1999	2	114	5%	8	431	6%
2000-2009	4	498	22%	17	1,389	20%
2010-2019	1	39	2%	9	779	11%
Under Construction	2	242	11%	4	499	7%
Unknown	2	119	5%	10	267	4%
<b>Total</b>	<b>32</b>	<b>2,261</b>		<b>102</b>	<b>6,992</b>	

Sources: STR, 2020; Strategic Economics, 2020.

## Performance

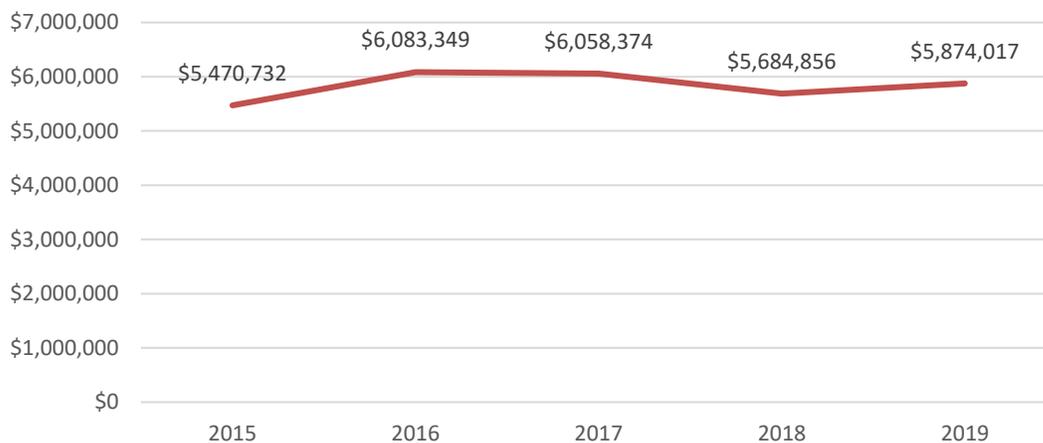
Sonoma County's hotel occupancy rates, Average Daily Rates (ADRs), and Revenue per Available Room (RevPAR) indicate that hotel performance was strong over the last three years before the onset of the COVID-19 pandemic. As is true for the lodging industry broadly, visitor traffic to Sonoma County is highly seasonal, with occupancy, ADRs, and RevPAR peaking in the month of September and during the summer months generally. Countywide ADRs rose reached a peak near \$210 per night in September of 2018 and 2019. Over the past three years, occupancy rates typically reach approximately 85 percent during summer months, declining to 60 to 65 percent in January. ADRs, RevPAR, and occupancy rates were slightly lower in 2019 than 2018 in Sonoma

County, potentially due to a combination of absorption of demand by new hotels and reduced demand after a spike associated with Tubbs Fire housing and recovery efforts.

The profound immediate impact of the COVID-19 crisis in 2020 is evident in the ADR, RevPAR, and Occupancy figures available for 2020 year-to-date. As of May 2020, ADRs were about half of average rates from the prior three full calendar years.

As shown in **Figure 3-23**, transient occupancy tax (TOT) revenues rose in the City of Santa Rosa by a total of seven percent between 2015 and 2019. Revenues peaked in 2016 but decreased over the next two years due to the Tubbs Fire in the Fall of 2017, which resulted in the loss of two hotels. Local tourism industry officials noted that the hotels that were lost in the fire were the only hotels in the city with large group spaces that could host major events. These hotels were therefore destinations themselves, attracting visitor traffic to other accommodations in the city. The absence of these hotels may partly explain why TOT revenues have not returned to 2016 levels.

**Figure 3-23.** Santa Rosa TOT Revenue, 2015-2019 (In Nominal Dollars)



Sources: City of Santa Rosa, 2020; Strategic Economics, 2020.

The long-term outlook for Santa Rosa's hotel market is generally positive. The 2019 Sonoma County Annual Tourism Report and industry experts interviewed for this study noted that Santa Rosa's hotel performance is partly linked to attracting visitors from other parts of the Bay Area, which has experienced strong job growth and rising disposable incomes. The city may also be able to attract additional visitors if it attracts additional large businesses, which would contribute to additional hotel demand from business travelers. Finally, an opportunity may exist for Santa Rosa to attract additional hotel stays if a new hotel with group meeting space were added back to the city's inventory.

## Development Pipeline

As of July of 2020, there was one mid-scale and one upscale hotel under construction in Santa Rosa, which together will add a total of 242 rooms to the city's inventory. Another three hotels are in final planning, which would add an additional 377 rooms if built. In Sonoma County there are an additional two hotels under construction with a total of 257 hotel rooms, and four hotels in final planning with a combined 448 rooms. Most of the hotels that are under construction countywide are select service hotels. Several hundred units are in initial planning stages countywide, but because of the impacts of the COVID-19 pandemic it is unclear how many of these projects will be built in the next five years.

## Demand Estimates

General market and economic indicators suggest consistent long-term demand for additional hotel rooms in the Sonoma County market and Santa Rosa submarket area. Historical trends indicate that hotel development activity and growth rates in Sonoma County are generally consistent over longer periods of time, regardless of cyclical variations from year to year. Given that the general economy and tourism activity are projected to continue growing in the coming decades in Sonoma County, the county was assumed to continue adding hotel rooms in the coming decades at a rate comparable to the pace of past inventory growth.

The demand projections shown in **Table 3-20** estimate that Santa Rosa will capture demand for between approximately 1,037 and 1,250 additional hotel rooms by 2050, after subtracting the hotel rooms currently under construction. The estimates assume that Santa Rosa will capture between 30 and 35 percent of growth in demand countywide. For context, Santa Rosa accounted for 30 percent of all new room inventory in Sonoma County since 1980, including projects currently under construction. Since 2009, Santa Rosa's new, planned, and proposed hotel rooms accounted for approximately 32 percent of countywide growth and development activity.

Table 3-20: Hotel Demand Estimates for Santa Rosa, 2020 to 2050	
<b>Assumptions</b>	
Average Annual Sonoma County Inventory Growth (in Rooms)	142
Sonoma County Growth, 2050	4,264
Units Under Construction in Santa Rosa	242
<b>Retail Demand Projections</b>	
<b>Scenario 1 (Low Estimate Growth)</b>	
Santa Rosa Capture Rate of Sonoma County Growth	30%
Santa Rosa Average Annual Growth	43
Santa Rosa Total Room Growth, 2050	1,279
Santa Rosa Room Growth, Net of Units Under Construction	1,037
<b>Scenario 2 (High Estimate Growth)</b>	
Santa Rosa Capture Rate of Sonoma County Growth	35%
Santa Rosa Average Annual Growth	50
Santa Rosa Total Room Growth, 2050	1,492
Santa Rosa Room Growth, Net of Units Under Construction	1,250
Source: Strategic Economics, 2020.	

## 3.10 REMAINING BUILDOUT CAPACITY VERSUS DEMAND ESTIMATES

Santa Rosa’s ability to accommodate future growth in demand for residential and non-residential uses will partly depend on the City’s remaining capacity to accommodate growth in the General Plan. Therefore, the demand estimates described in this chapter were compared against an analysis of capacity for additional growth under the existing “Santa Rosa General Plan 2035.” This comparison will help to inform discussions of whether and how to increase growth capacity as part of the General Plan update.

Based on Santa Rosa’s current General Plan, the City has remaining capacity to accommodate an additional 35,500 housing units and nearly 22 million square feet of retail, office, and industrial space. As shown in **Table 3-21**, remaining capacity for non-residential growth includes 16.7 million square feet of retail space, 5.2 million square feet of industrial space, and 61,000 square feet of office space. The estimate of existing development was based on data provided by the City of Santa Rosa (and differs from real estate market data described elsewhere in this chapter). The estimate of buildout capacity was based on a variety of reasonable assumptions regarding infill/redevelopment of already developed properties, development of vacant properties, the distribution of development activity by land use within flexible General Plan land use designations, and total development potential within different land use designations. As a result, actual development capacity could differ if growth patterns diverge from the analysis’ assumptions.

<b>Table 3-21: Total Allowable Buildout Under Existing General Plan</b>			
	<b>Total Allowable Buildout Under Current General Plan</b>	<b>Existing Development*</b>	<b>Remaining Capacity Under Current General Plan</b>
<b>Residential (dwelling units)</b>			
Single-Family	67,700	46,000	21,700
Multifamily	38,900	25,200	13,800
<b>Total Dwelling Units</b>	<b>106,700</b>	<b>71,200</b>	<b>35,500</b>
<b>Non-Residential (sq. ft.)</b>			
Retail	36,297,300	19,612,800	16,684,500
Office	3,882,500	3,820,900	61,600
Industrial	11,684,100	6,441,900	5,242,200
<b>Total Non-Residential</b>	<b>51,864,000</b>	<b>29,875,600</b>	<b>21,988,400</b>
Source: City of Santa Rosa, 2020; PlaceWorks, 2020; Strategic Economics, 2020.			
*Existing development estimates were based on City of Santa Rosa records and therefore differ from the real estate market data presented elsewhere in this chapter.			

Santa Rosa would need to create additional development capacity to capture all estimated growth in housing demand by 2050, although areas allowing for mixed-use growth could potentially accommodate a higher share of demand than is indicated. **Table 3-22** shows that estimated growth in housing demand for Santa Rosa by 2050 would exceed current allowed growth capacity by between 100 housing units and 6,200 housing units in the “low” and “high” demand scenarios, respectively. If, however, more properties with a mixed-use designation were to be developed as housing than was assumed, additional housing demand could be accommodated.

Santa Rosa’s current General Plan buildout capacity could accommodate all future growth in demand for non-residential uses except for office/R&D space. As shown in **Table 3-22**, capacity for retail growth in Santa Rosa outstrips estimated growth in demand by at least 15.5 million square feet of space. Industrial capacity exceeds estimated growth in demand by at least 3.7 million square feet, while capacity for office growth falls short of estimated future demand by between one and two million square feet. However, the excess capacity within the industrial land use could potentially accommodate some or all of the unmet office demand if sufficient flexibility exists or is provided within the industrial land use designations.

Future decision-making processes for the General Plan update will need to consider the tradeoffs between accommodating growth through development of vacant sites versus allowing and encouraging redevelopment or intensification of already-developed properties. Meeting demand for growth in Santa Rosa will likely require both redevelopment or intensification of sites already currently developed, and development of vacant land. Based on data provided by the City of Santa Rosa, 9.3 percent of the City’s land area is currently vacant.

<b>Table 3-22: Comparison of Remaining General Plan Capacity versus Demand Growth Estimates</b>					
	<b>Remaining Capacity Under Current General Plan</b>	<b>2050 Demand Growth Estimate (Low)</b>	<b>2050 Demand Growth Estimate (High)</b>	<b>Remaining Capacity Less Low Demand Estimate</b>	<b>Remaining Capacity Less High Demand Estimate</b>
<b>Residential (dwelling units)</b>					
Single-Family	21,700	n/a	n/a	n/a	n/a
Multifamily	13,800	n/a	n/a	n/a	n/a
<b>Total Dwelling Units</b>	<b>35,500</b>	<b>35,600</b>	<b>41,700</b>	<b>(100)</b>	<b>(6,200)</b>
<b>Non-Residential (sq. ft.)</b>					
Retail	16,684,500	945,700	1,106,500	15,738,800	15,578,000
Office*	61,600	1,131,000	2,106,000	(1,069,400)	(2,044,400)
Industrial	5,242,200	571,000	1,536,000	4,671,200	3,706,200
<b>Total Non-Residential</b>	<b>21,988,400</b>	<b>2,647,700</b>	<b>4,748,500</b>	<b>19,340,700</b>	<b>17,239,900</b>
Source: City of Santa Rosa, 2020; PlaceWorks, 2020; Strategic Economics, 2020.					
*Santa Rosa can likely accommodate a higher share of office demand than is reflected here, given potential flexibility between the office and industrial zoning designations and flexibility in the range of types of spaces that could accommodate office demand.					

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